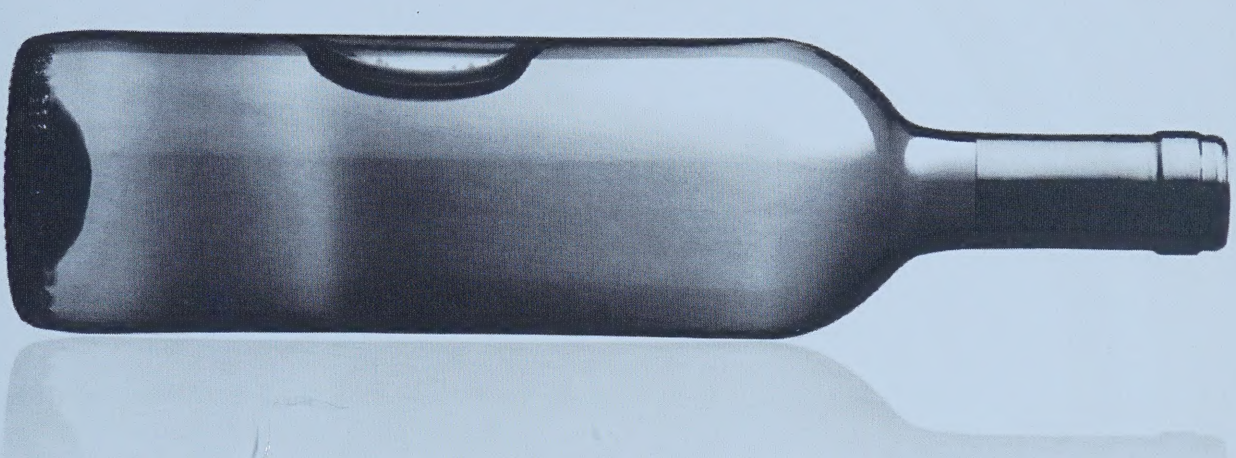

WELL BALANCED.

LIQUOR STORES INCOME FUND • ANNUAL REPORT 2009

LIQUOR DEPOT

President's Message

I am pleased to report that 2009 was a year of positive momentum for Liquor Stores Income Fund (the "Fund"). It was a year where our well-balanced approach to our success helped us achieve our goals. In 2009, we reached the milestone of five years of operations as a publicly traded trust. The management team is extremely proud of achieving revenue growth of nearly 250% since 2005, our first full year of operations. I would like to commend our employees for their dedication, hard work and commitment to our company. Their contributions, along with the vision of our talented management group, have helped make Liquor Stores Income Fund what it is today.

For the year 2009, distributable cash before non-recurring items increased to $1.81 per unit compared with $1.72 in 2008. Annual distributable cash per unit remained well above our cash distributions of $1.62 per unit. Sales for all our 236 stores totaled $541 million for 2009—that represented an overall increase of 12% from 2008. U.S. outlet sales totaled $96.2 million in 2009, up seven fold from 2008.

Despite challenging economic conditions we increased sales, gross margins and operating margins for both the fourth quarter of 2009 and the full year. Regional diversification played a major role in the Fund's ability to weather the economic downturn. Through operating discipline, fiscal restraint and the focus of management and staff, the Fund was able to deliver solid results this past year. We benefited from strategic decisions to expand into the United States, control expenses, close marginal stores at the end of 2008 and reduce our exposure to higher-risk wholesale customers.

In 2009, we were able to execute on our growth strategy with the acquisition of eight Liquor Barn stores in Kentucky, one store in Canada, and the development of four new stores in Canada and one in Alaska. Looking ahead, we envision further sales and store growth in 2010 as we continue on our path to reach 300 stores within the next 2 to 3 years.

With solid bases of operations in Alaska and Kentucky, the Fund is now well positioned to expand further in these areas as well as other U.S. markets. We expect a significant portion of the Fund's future growth to be in the U.S.

As our focus on U.S. markets grows, we are also continuing to monitor growth opportunities in Canada, specifically for greenfield development opportunities in Alberta and acquisitions in British Columbia.

Liquor Stores Income Fund will continue to make acquisition and development a priority. This will provide the greatest value and highest returns—affording us the opportunity to generate positive returns for our Unitholders.

As awareness of the Fund's acquisitions continues to increase in both Canada and the United States, we are seeing more opportunities come to the Fund. I can say with much certainty that we are in a very strong position as we move forward. We are a company with the right balance of leadership, hard work and dedication. Our management group and employees are focused on our future success. The energy, passion and commitment they bring to Liquor Stores Income Fund makes me extremely proud. It also affirms my belief that we are gaining momentum and will grow stronger in 2010 and in the years ahead.

I invite all unit holders to visit any one of our 236 locations and see our website at www.liquorstoreincomefund.ca. You are also invited to join us on May 6, 2010 at 1:00 pm at the Union Bank Inn, 10053 Jasper Avenue, Edmonton, Alberta for the annual general meeting. Join us as we review the past year and look forward to our future success in 2010.

Rick Crook
President and Chief Executive Officer
Liquor Stores GP Inc.

Management's Discussion and Analysis of Financial Condition and Results of Operations

This management's discussion and analysis ("MD&A") should be read in conjunction with the consolidated financial statements (the "Financial Statements") and accompanying notes of Liquor Stores Income Fund (the "Fund") for the year ended December 31, 2009. Results are reported in Canadian dollars unless otherwise stated and have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). Certain dollar amounts have been rounded to the nearest hundred thousand dollars or thousand dollars. References to notes are to notes of the Financial Statements unless otherwise stated.

Throughout this MD&A references are made to "EBITDA", "distributable cash", "distributable cash before non-recurring items", "operating margin", "operating margin before non-recurring items", "operating margin as a percentage of sales", "payout ratio" and other "Non-GAAP Measures". A description of these measures and their limitations are discussed on page 28 below under "Non-GAAP Measures".

See also "Risk Factors" on page 22 and "Forward-Looking Statements" on page 34 of this MD&A.

This MD&A is dated March 3, 2010.

Additional information relating to the Fund, including the Fund's Annual Information Form and other public filings, is available on SEDAR (www.sedar.com) and on the Fund's website at www.liquorstoresincomefund.com.

Results

Year ended December 31, 2009 compared with year ended December 31, 2008

- Total sales increased 12.0% to $541.0 million.
- Adjusted gross margin up 12.7% to $137.2 million from $121.7 million.
- Operating margin before non-recurring items up 8.9% to $47.7 million from $43.8 million.
- Distributable cash per unit before non-recurring items up 5.2% to $1.81 per unit from $1.72 per unit.

The continued growth of the Fund's operating margin before non-recurring items from $43.8 million in 2008 to $47.7 million in 2009 was driven by the Fund's strategy of expansion into the United States. The fourth quarter acquisition of eight Liquor Barn stores in the State of Kentucky and the full year results of the Fund's Brown Jug operation in the State of Alaska resulted in a $4.8 million increase to the Fund's overall operating margin before non-recurring items. Despite the challenging economic environment in 2009, the measures taken by the Fund to control store and head office expenses, the closure of marginal stores at the end of 2008 and reduced exposure to wholesale customers left the Fund's Canadian operating margin largely intact, but resulted in a $20 million or 5.4% reduction in the Fund's Canadian same stores sales.

Fourth quarter 2009 compared with fourth quarter 2008

- Total sales increased 8.7% to $155.5 million.
- Adjusted gross margin up 5.3% to $39.4 million from $37.4 million.
- Operating margin before non-recurring items down 3.9% to $14.9 million from $15.5 million.
- Distributable cash per unit before non-recurring items down 8.2% to $0.56 per unit from $0.61.

Weak economic conditions continued to have an effect on same store sales in the fourth quarter, especially in western Canadian resource-based markets. Compounding the effects of the economy, the Fund's promotional pricing was not as aggressive in October and November as it was in prior quarters, contributing to a 7.8% reduction in same store sales for the three months ended December 31, 2009. Promotional pricing for December sales was adjusted and same store sales for the month returned to the trend experienced for the first nine months of 2009 with a decrease of approximately 4.5%. The US operations contributed $3.1 million to operating margin before non-recurring items compared with $1.2 million in 2008, partially offsetting a decrease in Canadian operating margin before non-recurring items of $2.5 million.

OUTLOOK

In 2009, the Fund reached the milestone of five years of operations as a publicly-traded trust, and management is proud of achieving revenue growth of nearly 250% since 2005, the first full year of operations for the Fund. In spite of challenging economic conditions and unpredictable market conditions across North America in 2009, the Fund was able to carry out its planned growth strategy with the acquisition of eight Liquor Barn stores in Kentucky, one store in Canada and the development of four new stores in Canada and one in Alaska, bringing the total number of stores operated by the Fund to 236 at December 31, 2009.

For 2010 the Fund expects another increase in sales, given the benefit of a full year of operations for 13 stores that were acquired or developed during 2009. With strong bases of operations in Alaska and Kentucky, the Fund is well positioned to expand in these markets, as well as in other areas of Canada and the US as opportunities arise. Taking into consideration seasonal working capital requirements, the Fund has available credit of approximately $35 million to finance growth opportunities.

The Fund believes current credit facilities are sufficient to support operating and store development commitments as well as fund acquisitions throughout 2010. Should a large acquisition opportunity arise in 2010, the Fund would consider alternate sources of funding at that time.

With the January 1, 2011 effective date of legislation concerning the taxation of income trusts approaching, the Fund expects to make an announcement of its plans for 2011 in mid 2010.

Overview of the Fund

The Fund is an unincorporated open-ended, limited purpose trust established under the laws of the Province of Alberta. The Fund's trust units ("Units") and 6.75% convertible unsecured subordinated debentures ("6.75% Debentures") trade on the Toronto Stock Exchange under the symbols LIQ.UN and LIQ.DB, respectively. Through its 82.2% indirect interest in Liquor Stores Limited Partnership ("Liquor Stores LP"), the Fund operates 236 retail liquor stores. Management believes the Fund is the largest liquor store operator in Alberta by number of stores and revenue.

Stores and Operations

(as of March 3, 2010)

	Alberta			British Columbia			Alaska	Kentucky		Total
	Edmonton[1]	Calgary[1]	Other[2]	Lower Mainland	Vancouver Island	Interior	Anchorage	Lexington	Louisville	
Number of Stores	80	46	47	13	11	11	20	5	3	236

Notes:

(1) References to Edmonton and Calgary are to stores located in or near those urban centres.

(2) Other communities served in Alberta include, by region, Northern (22), Southern (9), Central (14) and Resort communities (2).

Competitive Environment

The Province of Alberta is the only province in Canada that has a fully privatized retail distribution system for adult beverages. The Fund currently operates 173 liquor stores in Alberta where there are approximately 1,122 liquor stores and 88 agency stores as at March 31, 2009 [Source: Alberta Gaming and Liquor Commission].

The Fund operates 35 stores and two small associated pubs in British Columbia. The Province of British Columbia's model for liquor distribution is a blend of approximately 674 private stores and 197 government operated stores. There are also approximately 224 private agency stores that service small communities. (Source: British Columbia Liquor Distribution Branch).

The Fund currently operates 20 stores in the greater Anchorage area. In the State of Alaska there are approximately 380 retail liquor stores with 87 stores in the greater Anchorage area. There are no government owned or operated liquor stores and the state limits the number of liquor stores in the state to one per 3,000 people in urban areas (Source: Alaska's Alcoholic Beverage Control Board).

In the State of Kentucky there are no government owned or operated liquor stores. Liquor licenses are permitted based on the alcoholic status of each county (wet or dry). The Alcoholic Beverage Control Board limits the number of retail liquor package licenses issued in wet counties to one per 2,300 persons with the exception of counties containing cities of first class such as Louisville, where liquor licenses are limited to one for every 1,500 persons. Grocery stores and gas stations are able to sell beer, but a retail liquor package license is required to sell wine and spirits. There are approximately 730 package retail license stores in Kentucky with 207 in Jefferson County and 68 in Fayette County (Source: Kentucky's Alcoholic Beverage Control Board). The Fund currently operates five stores in Lexington (Fayette County) and three stores in Louisville (Jefferson County).

Business Strategy

Growth

The Fund's strategy is to continue to grow through new store development and acquisitions and by attracting more customers to existing locations. The Fund explores opportunities to acquire and/or develop stores in Alberta, British Columbia, and the United States where regulatory regimes permit private liquor stores. Management will continue to assess potential acquisitions and store development opportunities for their ability to add accretive cash flow and unitholder value.

Competitive Differentiation

Management focuses on differentiating the Fund's stores from the competition by promoting its broad selection of products by emphasizing the in-store customer experience, technology, and marketing and brand development. Many of our stores offer customer education events and merchandise presentations. As well, select stores have controlled dispensing equipment for wine samplings.

Management will continue to concentrate marketing efforts on the Fund's current brand structure: Liquor Depot, Liquor Barn (Canada and US) and Brown Jug full service stores, as well as Grapes 'n Grains specialty stores.

Distributable Cash

The Fund views distributable cash as an important supplementary measure to assist unitholders in evaluating the Fund's performance as the Fund's objective is to provide a stable and sustainable flow of distributable cash to unitholders. Cash available for distribution is adjusted for cash required for maintenance capital expenditures, pre-opening costs for new stores, working capital reserve, and other reserves considered advisable by the Fund, including provisions for the Fund's deferred compensation plans. The policy allows the Fund to make stable monthly distributions to its unitholders based on estimates of annual distributable cash. The Fund pays cash distributions on or about the 15th of each month to unitholders of record on the last business day of the previous month.

The Fund's distribution policy is based on annualized distributable cash flow; accordingly, the seasonality of the Fund's individual quarterly results must be assessed in the context of annualized distributable cash flows. Historically, approximately 46% of the Fund's sales have occurred in the first half of the year and 54% in the latter half. It is the Fund's policy to pay consistent regular monthly distributions throughout the year based on estimated annual cash flows. The Fund reviews its historic and expected results on a regular basis giving consideration to historical, current and expected future performance of existing and new stores, the competitive environment and economic conditions, including labour market trends. In the first half of the year, distributions typically exceed distributable cash and in the second half of the year, distributable cash typically exceeds distributions such that the Fund has historically distributed approximately 90% of distributable cash on an annualized basis.

Distributions declared during the year ended December 31, 2009 were $36.5 million or $1.62 per Unit, consistent with 2008. For the year ended December 31, 2009, distributable cash before non-recurring items was $40.9 million or $1.81 per Unit, compared with $38.7 million or $1.72 per Unit for the same period in 2008. Distributable cash before non-recurring items per Unit for the three months ended December 31, 2009 was $0.56 compared with $0.61 for the year prior. The fourth quarter decline was due to the lingering effect of the Government of Alberta's liquor mark-up changes from earlier in the year. Non-recurring items in 2009 were largely comprised of professional and consulting fees for litigation matters related to the Liquor Barn Income Fund acquisition in 2007, employee severance provisions and a foreign exchange loss related to the acquisition of eight liquor stores in Kentucky. Non-recurring items in 2008 consisted of a foreign exchange gain related to the acquisition of Brown Jug stores of $3.2 million offset by professional and consulting fees for litigation matters related to the Liquor Barn Income Fund acquisition and store closure costs which included operating lease obligations.

The following table provides a reconciliation of distributable cash to its nearest GAAP measure, which is cash provided by operating activities:

	Three months ended December 31,		Year ended December 31,	
(expressed in thousands of Canadian dollars)	**2009**	2008 (Restated)[1]	**2009**	2008 (Restated)[1]
Cash provided by operating activities	**$ 8,670**	$ 20,265	**$ 45,633**	$ 35,747
Net change in non-cash working capital	**3,208**	(4,970)	**(5,849)**	3,020
Provision for financing charges	**(108)**	-	**(216)**	-
Provision for non-growth property and equipment	**(318)**	(88)	**(628)**	(353)
Pre-opening costs	**457**	401	**685**	1,227
Distributable cash	**11,909**	15,608	**39,625**	39,641
Non-recurring items[2]	**670**	(1,763)	**1,286**	(968)
Distributable cash before non-recurring items	**$ 12,579**	$ 13,845	**$ 40,911**	$ 38,673
Weighted average units outstanding	**# 22,556,969**	# 22,556,969	**# 22,556,969**	# 22,547,973
Distributable cash before non-recurring items per Unit	**$ 0.56**	$ 0.61	**$ 1.81**	$ 1.72
Distributable cash per Unit[3]	**$ 0.53**	$ 0.69	**$ 1.76**	$ 1.76
Distributions declared per Unit	**$ 0.41**	$ 0.41	**$ 1.62**	$ 1.62

(1) Comparative information from 2008 has been restated in accordance with the adoption of CICA Handbook Section 3064 – Goodwill and Intangible Assets and the withdrawal of Emerging Issues Committee Abstract #27 – Revenues and Expenditures during the Pre-Operating Period.

(2) Non-recurring items for the three and twelve months ended December 31, 2009 include professional and consulting fees for litigation matters related to the 2007 acquisition of Liquor Barn Income Fund, employee severance provisions and a foreign exchange loss related to the acquisition of eight liquor stores in Kentucky. Non-recurring items for the three and twelve months ended December 31, 2008 include foreign exchange gains realized on the settling of foreign currency contracts relating to the Brown Jug acquisition offset by professional and consulting fees for litigation matters related to the Liquor Barn Income Fund acquisition and store closure costs which included operating lease obligations.

(3) The GAAP measure comparable to distributable cash per unit is earnings per unit. Diluted earnings per Unit for the three months ended December 31, 2009 were $0.43 compared to diluted earnings per Unit of $0.50 in the same period of 2008. Diluted earnings per Unit for the year ended December 31, 2009 were $1.27 compared to diluted earnings per Unit of $1.03 in the same period of 2008.

Distributable cash is a non-GAAP measure. See supplemental liquidity information on page 30 for a detailed discussion of distributable cash.

Operating Results

The retail liquor industry is subject to seasonal variations with respect to sales. Sales are typically lowest early in the year and increase in the latter half. In 2009, 20% (2008 - 20%) of annual same store sales occurred in the first quarter, 26% (2008 - 26%) in the second quarter, 26% (2008 - 26%) in the third quarter and 28% (2008 - 28%) in the last quarter.

Policy on Same Store Sales Comparisons

Comparable same store sales includes sales for stores that have been open 12 full months at the beginning of the reporting period. Certain stores have been excluded as follows: stores which have significant wholesale business and stores which operate within close proximity to Canadian Liquor Depot stores which were opened in 2008. For the twelve months ended December 31, 2009, five stores located in close proximity to other Liquor Depot stores were excluded from the same store sales comparison. For the three months ended December 31, 2009, no such stores were excluded. It is management's intention to continue to operate both the existing and new locations.

Year Ended December 31, 2009 Operating Results

The following table summarizes the operating results for the year ended December 31, 2009 and 2008.

	Year ended December 31,			
	2009		2008	
(expressed in thousands of Canadian dollars)	**$**	**%**	$	%
	(unaudited)		(unaudited)	
Sales[1]				
Canadian same stores	**347,232**	**64.2%**	367,196	76.0%
Canadian wholesale operations	**58,141**	**10.7%**	68,775	14.2%
Other Canadian stores	**39,497**	**7.3%**	32,607	6.8%
Total Canadian store sales	**444,870**	**82.2%**	468,578	97.0%
US stores	**96,179**	**17.8%**	14,337	3.0%
Total sales	**541,049**	**100.0%**	482,915	100.0%
Adjusted gross margin[2]	**137,175**	**25.4%**	121,683	25.2%
Adjusted operating and administrative expense[3]	**90,568**	**16.8%**	80,126	16.6%
Adjusted operating margin[4]	**46,607**	**8.6%**	41,557	8.6%
Non-recurring items[5]	**1,136**	**0.2%**	2,280	0.5%
Operating margin before non-recurring items	**47,743**	**8.8%**	43,837	9.1%

Notes:

(1) The number of stores and corresponding results for the year ended December 31, 2009 includes partial months of operations for 14 stores (2008 – 35) opened or acquired and one store sold during the period. The results for 2008 also include seven stores which were closed prior to December 31, 2008. Sales for stores comprising Canadian wholesale operations include sales to both wholesale and retail customers.

(2) Adjusted gross margin for 2009 excludes $0.7 million (2008 – $0.4) in respect of inventory fair value adjustments related to acquisitions.

(3) For the year ended December 31, 2009, adjusted operating and administrative expense excludes $0.7 million (2008 – $1.2 million) in pre-opening costs charged to operating and administrative expense.

(4) Operating margin has been calculated as described under "Non-GAAP Measures".

(5) Non-recurring items for the year ended December 31, 2009 and 2008 include professional and consulting fees for litigation matters relating to the 2007 acquisition of Liquor Barn Income Fund. Non-recurring items for 2009 also include employee severance provisions. Non-recurring items for 2008 also include recruitment and relocation expenses and operating lease provisions for closed stores.

Year ended December 31, 2009 Consolidated Operating Results

Sales

For the year ended December 31, 2009 sales were $541.0 million, up 12.0% from $482.9 million in the same period last year. Sales growth was mainly attributable to the Fund's US acquisitions in 2008 and late in 2009, which more than offset a decline in Canadian sales.

- Canadian same store sales – down $20.0 million or 5.4%
  - Consistent with the first nine months of 2009, same store sales across Alberta and British Columbia continued to be impacted by the economic downturn. Sales for historically high volume long weekends were down throughout 2009 due to poor spring and early summer weather, and less aggressive promotional pricing in October and November. Despite the decrease in sales, the Fund was able to keep its operating margin largely intact through controlling expenses, the closure of marginal stores in late 2008 and through reduced exposure to wholesale customers.
  - Natural resource-dependent markets in Alberta and British Columbia continued to be impacted by the slow economic environment. Same store sales for these markets, including Fort McMurray, Grande Prairie, Edson, Slave Lake, Red Deer, and parts of Vancouver Island were down between 5.6% and 12.4%. In total, same store sales for these communities was down $5.2 million from 2008.

- Wholesale business sales for the year ended December 31, 2009 were $58.1 million, down $10.7 million or 15.6% from $68.8 million a year earlier. Sales to wholesale customers generate significantly lower margins than retail and have higher administrative and credit risk costs associated with them. Throughout 2009, the Fund acted on its strategy to reduce wholesale business. Most wholesale stores also have a retail component, and sales for these stores in resource-dependent markets were significantly impacted by the weak economy, accounting for approximately 35% of the decrease in this category in 2009.
- Other Canadian stores include those stores opened or acquired in 2009 and 2008, stores closed in 2008 and certain other stores excluded from same store sales. These stores had sales of $39.5 million in 2009 compared with $32.6 in 2008.
  - During 2009 and 2008, the Fund opened fifteen stores and acquired six. Sales for these stores, net of one store sold in 2009, were $26.6 million which represents an increase of $13.6 million from 2008.
  - In 2008, the Fund closed seven stores which had sales of $4.8 million in 2008.
  - Sales for stores excluded from same store sales due to their close proximity to new stores were $12.9 million for the year ended December 31, 2009, down $1.9 million or 12.8% from $14.8 million for the same period in 2008.
- US sales increased $81.9 million over 2008. In 2009, Brown Jug stores were in operation for the full year compared with two months in 2008. Further, the Fund acquired eight stores in Kentucky and opened one store in Alaska in late 2009.

Adjusted Gross Margin

For the year ended December 31, 2009, adjusted gross margin was $137.2 million, up 12.7% from $121.7 million for the same period last year. Gross margin as a percentage of sales was up 0.2% to 25.4% for 2009 compared with 25.2% for 2008.

In Canada, adjusted gross margin was impacted by the decrease in sales; however, as a percentage of sales, gross margin was up due to less aggressive promotional sales prices in October and November as well as the impact of the Government of Alberta's liquor mark-up changes earlier in the year. In the US, gross margin was up following a full year of operations for the Brown Jug stores in Alaska and the addition of eight stores in Kentucky in late 2009.

Adjusted Operating and Administrative Expense

Adjusted operating and administrative expense for the year ended December 31, 2009 was $90.6 million, up 13.1% from $80.1 million a year earlier mainly due to an increase in the number of stores. In Canada, operating and administrative costs were down due to cost savings achieved from the closure of certain under-performing stores at the end of 2008 and other store and head office cost saving measures put into place in 2009. In the US, administrative and operating expense was up, representing a full year of operations for Brown Jug in Alaska and two and a half months of operations for the Fund's Kentucky stores.

For the year ended December 31, 2009, operating and administrative expenses included $1.1 million in non-recurring consulting and professional fees for litigation related to the acquisition of Liquor Barn Income Fund in 2007 and employee severance provisions. For the year ended December 31, 2008, operating and administrative expense included $2.3 million in non-recurring items including professional and consulting fees for litigation relating to the 2007 acquisition of Liquor Barn Income Fund and a provision for future rent and operating costs of stores closed during the year.

As a percentage of sales, adjusted operating and administrative expense for the period was consistent with the prior year at approximately 17.0%.

Operating Margin

Adjusted operating margin was $46.6 million for the year ended December 31, 2009, up 12.0% from $41.6 million in 2008. As a percentage of sales, operating margin was 8.6%, consistent with a year earlier.

Adjusted operating margin for Canadian stores for 2009 was $40.6 million or 9.1% as a percentage of sales compared with $40.4 million and 8.6% as a percentage of sales for 2008. In Canada, adjusted operating margin as a percentage of sales was up 0.5% which reflected measures taken by the Fund to control expenses, the closure of marginal stores at the end of 2008 and reduced exposure to wholesale customers.

The US adjusted operating margin for 2009 was $6.0 million or 6.3% as a percentage of sales compared with $1.2 million and 8.3% as a percentage of sales for 2008. Adjusted operating margin was down 2.0% which was in line with management's expectations taking into consideration the results for 2008 reflected eight weeks of operations for Brown Jug during a period of time when operating margin as a percentage of sales was at a seasonal high (see page 12 fourth quarter Operating Margin).

Operating margin before non-recurring items for the year ended December 31, 2009 was $47.7 million, up $3.9 million or 8.9% for the same period last year mainly due to the contributions from US operations.

Future Income Taxes

The Fund, in accordance with GAAP, follows the asset and liability method of accounting. With the substantive enactment of Bill C-52 in 2007, including the provisions related to the taxation of income trusts (the "SIFT Rules"), the asset and liability method of accounting requires the Fund to record a non-cash future tax provision. For a detailed discussion of the SIFT Rules, see pages 15 and 26. Determining future income taxes involves a number of assumptions and variables that could reasonably change in the period to January 1, 2011, including: the useful lives of recorded property, plant and equipment and intangible assets that determine the amount of amortization recorded thereon; the amount of discretionary tax deductions the Fund will claim from its existing tax depreciation pools, the rates of tax applicable in various jurisdictions in which the Fund is taxable and the allocation of taxable income to those jurisdictions; and the acceptance of the Fund's tax filing positions by the taxation authorities. Changes in these assumptions and variables, which are re-evaluated at each balance sheet date, could result in changes in the recorded amount of future income taxes, and these changes could be material.

In the year ended December 31, 2009, the Fund updated its estimate of temporary differences pertaining primarily to certain goodwill, property, plant and equipment, and intangible assets, which resulted in a net decrease in future income taxes of $1.4 million, compared with a net increase of $2.2 million for the same period in 2008. Changes to future income tax estimates represent a non-cash charge against net earnings.

Net Earnings before Non-controlling Interest and Net Earnings

Net earnings before non-controlling interest increased to $29.0 million for the year ended December 31, 2009, up from $24.0 million for the same period in 2008. Net earnings for the year ended December 31, 2009 included a non-cash future income tax recovery of $1.4 million. Included in net earnings for the year ended December 31, 2008 was a $2.2 million future income tax expense charge.

For the year ended December 31, 2009, net earnings were $23.7 million, up $4.8 million from $18.9 million in 2008.

Fourth Quarter 2009 Consolidated Operating Results

The following table summarizes the operating results for the three months ended December 31, 2009 and 2008.

	Three months ended December 31,			
	2009		2008	
(expressed in thousands of Canadian dollars)	$	%	$	%
	(unaudited)		(unaudited)	
Sales[1]				
Canadian same stores	**100,674**	**64.7%**	109,210	76.4%
Canadian wholesale operations	**14,462**	**9.3%**	17,592	12.3%
Other Canadian stores	**2,425**	**1.6%**	1,876	1.3%
Total Canadian store sales	**117,561**	**75.6%**	128,678	90.0%
US stores	**37,968**	**24.4%**	14,337	10.0%
Total sales	**155,529**	**100.0%**	143,015	100.0%
Adjusted gross margin[2]	**39,386**	**25.3%**	37,408	26.2%
Adjusted operating and administrative expense[3]	**24,960**	**16.0%**	23,398	16.4%
Adjusted operating margin[4]	**14,426**	**9.3%**	14,010	9.8%
Non-recurring items[5]	**519**	**0.3%**	1,485	1.0%
Operating margin before non-recurring items	**14,945**	**9.6%**	15,495	10.8%

Notes:

(1) The number of stores and corresponding results for the three months ended December 31, 2009 contain partial months of operations for 11 stores opened or acquired (2008 – 22). The results for 2008 also include seven stores which were closed prior to December 31, 2008 and one store sold during 2009. Sales for stores comprising Canadian wholesale operations include sales to both wholesale and retail customers.

(2) Adjusted gross margin for 2009 excludes $0.5 million (2008 – $0.4) in respect of inventory fair value adjustments related to acquisitions.

(3) For the three months ended December 31, 2009, adjusted operating and administrative expense excludes $0.5 million (2008 – $0.4 million) in pre-opening costs charged to operating and administrative expense.

(4) Operating margin has been calculated as described under "Non-GAAP Measures".

(5) Non-recurring items for the fourth quarter of 2009 and 2008 include professional and consulting fees for litigation matters relating to the 2007 acquisition of Liquor Barn Income Fund. Non-recurring items for 2009 also include employee severance provisions. Non-recurring items for 2008 also include store closure costs for stores closed during the fourth quarter of 2008.

Fourth Quarter 2009 Consolidated Operating Results

Sales

For the three months ended December 31, 2009 sales were $155.5 million, up 8.7% from $143.0 million in the same period last year. The increase was mainly attributable to growth in the US, where the Fund made two significant acquisitions of stores since the third quarter of 2008. The US growth more than offset a decline in Canadian sales, which was due mainly to weakness in the western Canadian resource-based economy.

- Canadian same store sales – down $8.5 million or 7.8%
  - Challenging economic conditions which continued into the fourth quarter across Alberta and British Columbia have had a significant impact on same store sales. In October and November the Fund's promotional pricing was not as aggressive as in prior quarters, especially in respect of the pricing for the Fund's Thanksgiving and November Anniversary sales. As a result, same store sales dropped significantly. Promotional pricing was revisited for the month of December which saw same store sales for December return to the trend experienced for the first nine months of the year with a reduction in same store sales of approximately 4.5%.

- Resource-dependent markets in Alberta and British Columbia continue to be impacted by the weak economy. Same store sales for these markets including Fort McMurray, Grande Prairie, Edson, Slave Lake, Red Deer, and parts of Vancouver Island were down. In total, same store sales for these communities were down $2.0 million or 11.8%.

- Wholesale business sales for the three months ended December 31, 2009 were down $3.1 million or 17.7% from a year earlier. Throughout the quarter, the Fund continued acting on its strategy to reduce wholesale business. In addition to the Fund's wholesale business strategy changes, sales for wholesale stores in resource-dependent markets including Fort McMurray and Edson were significantly impacted by the economy accounting for approximately 33% of the decrease in this category. The sales decrease in these stores is a combination of both retail and wholesale sales.
- Other Canadian stores include those stores opened or acquired in 2009 and in the fourth quarter of 2008, stores closed in 2008 and certain other stores excluded from same store sales. These stores generated an increase of $0.5 million in sales over the same period in the prior year.
  - Sales for stores that were opened or acquired in the fourth quarter of 2008 and in 2009, net of one store sold, comprised $1.4 million of the sales increase.
  - In 2008, the Fund closed seven stores which had sales of $0.9 million in the fourth quarter of 2008.
- US sales increased $23.6 million over the fourth quarter of 2008. In 2009, Brown Jug stores were in operation for the full three months of the quarter compared with two months in 2008. During the quarter, the Fund also opened one store in Alaska and acquired eight stores in Kentucky.

Gross Margin

As a percentage of sales, gross margin was down 0.9% for the three months ended December 31, 2009. Adjusted gross margin was $39.4 million, up 5.3% from $37.4 million for the same period last year.

Gross margin gains in Canada, resulting from less aggressive pricing in advertising campaigns in the fourth quarter, were offset by the impact of the Government of Alberta's liquor mark-up changes from earlier in the year. Many of the products sold in the Fund's Alberta stores in the third and fourth quarters of 2009 had lower margins as products purchased between April 7 and July 7 were bought at higher cost following a liquor mark-up increase and were later sold by the Fund at reduced retail prices following the Government's reduction in the liquor mark-up.

US stores typically have lower product gross margins and higher volume than Canadian stores. As a result, twelve full months of operations for Brown Jug stores and the addition of stores in Kentucky impacted gross margin as a percentage of sales for the Fund as expected; however, overall gross margin was up.

Adjusted Operating and Administrative Expense

Adjusted operating and administrative expense for the three months ended December 31, 2009 was $25.0 million, up 6.8% from $23.4 million a year earlier. As a percentage of sales, operating and administrative expense was down 0.4% from 2008.

In Canada, operating and administrative expense decreased as a result of cost savings achieved from closing under-performing stores at the end of 2008 and effective cost control measures active in 2009. In the US, operating and administrative expense was up due to Brown Jug stores operating for the entire quarter in 2009 compared with only two months in 2008 and also the addition of Kentucky operations mid-way through October 2009.

Operating and administrative expense for the three months ended December 31, 2009 included non-recurring consulting and professional fees for litigation related to the acquisition of Liquor Barn Income Fund in 2007

and employee severance provisions. For the three months ended December 31, 2008, operating and administrative expenses included $1.5 million in non-recurring items including expenses associated with the Liquor Barn Income Fund acquisition and operating lease costs for stores closed during the period.

Operating Margin

Adjusted operating margin was $14.4 million for the fourth quarter of 2009, up 2.9% from $14.0 million in 2008. As a percentage of sales, operating margin was down 0.5%.

Adjusted operating margin for Canadian stores was $11.3 million or 9.6% as a percentage of sales for the fourth quarter of 2009 compared with $12.8 million or 10.0% as a percentage of sales for 2008. A combination of factors including gross margin gains from less aggressive advertising in October and November offset by the impact of the Government of Alberta's liquor mark-up changes earlier in the year, resulted in a decrease in operating margin as a percentage of sales of 0.4% for Canadian stores.

The US adjusted operating margin for the fourth quarter of 2009 was $3.1 million or 8.2% as a percentage of sales compared with $1.2 million or 8.3% for the fourth quarter of 2008. The increase is due mainly to the increase in number of stores. Both the 2008 acquisition of Brown Jug stores and the 2009 acquisition of Liquor Barn (KY) stores were completed in the fourth quarter peak selling season.

Operating margin before non-recurring items for the three months ended December 31, 2009 was 9.6% or $14.9 million, compared with 10.8% or $15.5 million a year earlier.

Future Income Taxes

In the quarter ended December 31, 2009, the Fund updated its estimate of temporary differences pertaining primarily to certain goodwill, property, plant and equipment, and intangible assets, which resulted in a net decrease in future income taxes of $1.6 million, compared with a net decrease of $1.4 million for the same period in 2008. Changes to future income tax estimates represent a non-cash charge against net earnings.

Net Earnings before Non-controlling Interest and Net Earnings

Net earnings before non-controlling interest decreased to $9.8 million for the three months ended December 31, 2009, down from $11.1 million for the same period in 2008 primarily due to a $3.2 million foreign exchange gain recognized in relation to the Brown Jug acquisition in 2008. The three months ended December 31, 2009 included a non-cash future income tax decrease of $1.6 million compared with a net decrease of $1.4 million for the three months ended December 31, 2008.

For the quarter ended December 31, 2009, net earnings were $8.2 million, down $1.0 million from $9.2 million in 2008.

Condensed Annual Information

(expressed in thousands of Canadian dollars, except per Unit amounts)

	2009	2008[1]	2007[1]	2006[1]	2005[1]
Balance Sheet					
Cash and cash equivalents	**$ 5,288**	$ 3,530	$ 19,498	$ 3,397	$ 2,047
Total assets	**509,809**	488,256	449,006	186,325	140,324
Bank indebtedness	**41,094**	31,172	–	5,455	15,493
Total current liabilities	**68,688**	83,240	14,062	12,896	20,416
Long-term debt	**100,126**	51,742	74,014	–	11,352
Unitholders' equity	**286,165**	294,645	301,837	140,122	67,345
Non-controlling interest	**45,576**	48,013	50,461	33,307	41,511
Statement of Earnings					
# stores	**236**	223	195	105	70
Sales	**541,049**	482,915	383,063	221,997	157,444
Future income tax (recovery) expense	**(1,404)**	2,194	7,990	28	40
Earnings before non-controlling interest	**29,048**	23,995	15,544	15,677	10,005
Net earnings for the period	**23,729**	18,856	10,020	11,300	5,988
Basic earnings per Unit	**$ 1.29**	$ 1.03	$ 0.69	$ 1.33	$ 1.03
Diluted earnings per Unit	**$ 1.27**	$ 1.03	$ 0.69	$ 1.31	$ 1.00
Distributable cash per Unit	**$ 1.76**	$ 1.76	$ 1.67	$ 1.39	$ 1.14
Distributable cash before non-recurring items per Unit	**$ 1.81**	$ 1.72	$ 1.71	$ 1.39	$ 1.14
Distributions declared per Unit	**$ 1.62**	$ 1.62	$ 1.49	$ 1.24	$ 1.05

(1) Annual information for 2005 to 2008 has been restated in accordance with the adoption of CICA Emerging Issues Committee Abstract #171 Future Income Tax Consequences of Exchangeable Interests in an Income Trust or Specified Investment Flow-Through and CICA Handbook Section 3064 – Goodwill and intangible assets (see note 3 to the Financial Statements).

The driver of the year-over-year changes in the above information is the growth in the number of stores operated by the Fund. The following table summarizes the Fund's store acquisitions, developments and closures for the past three years.

	Acquired	Built	Closed	Net Increase
2007	86	5	(1)	90
2008	24	11	(7)	28
2009	9	5	(1)	13

Condensed Quarterly Information

(expressed in thousands of Canadian dollars, except per Unit amounts)

	2009				2008			
	Dec 31	**Sep 30**	**Jun 30**	**Mar 31**	Dec 31 (restated)[1]	Sep 30 (restated)[1]	Jun 30 (restated)[1]	Mar 31 (restated)[1]
Balance Sheet								
Cash and cash equivalents	$ 5,288	$ 9,078	$ 1,338	$ 2,139	$ 3,530	$ 810	$ 754	$ 768
Total assets	509,809	474,583	474,963	470,646	488,256	442,460	438,993	434,006
Bank indebtedness	41,094	26,427	25,862	24,159	31,172	13,298	9,902	-
Total current liabilities	68,688	47,229	44,571	72,600	83,240	39,962	36,812	14,098
Long-term debt	100,126	85,563	85,188	52,056	51,742	51,425	51,108	65,859
Statement of Earnings								
# stores, end of period	236	225	224	224	223	208	204	198
Sales	$ 155,529	$ 138,915	$ 140,253	$ 106,352	$ 143,015	$ 123,913	$ 121,567	$ 94,422
Future tax (recovery) expense	(1,600)	423	576	(803)	(1,387)	587	493	2,499
Earnings (loss) before non-controlling interest	9,836	7,466	10,091	1,655	11,090	8,329	5,493	(916)
Net earnings (loss) for the period	8,220	5,951	8,072	1,486	9,187	6,619	4,310	(1,258)
Basic earnings (loss) per Unit	$ 0.45	$ 0.32	$ 0.44	$ 0.08	$ 0.50	$ 0.36	$ 0.24	$ (0.07)
Diluted earnings (loss) per Unit	$ 0.43	$ 0.32	$ 0.44	$ 0.07	$ 0.50	$ 0.36	$ 0.24	$ (0.07)
Distributable cash per Unit	$ 0.53	$ 0.47	$ 0.59	$ 0.17	$ 0.69	$ 0.49	$ 0.41	$ 0.17
Distributable cash before non-recurring items per Unit	$ 0.56	$ 0.47	$ 0.60	$ 0.18	$ 0.61	$ 0.50	$ 0.41	$ 0.19
Distributions declared per Unit	$ 0.405	$ 0.405	$ 0.405	$ 0.405	$ 0.405	$ 0.405	$ 0.405	$ 0.405

(1) Information for the quarters has been restated in accordance with the adoption of CICA Emerging Issues Committee Abstract #171 Future Income Tax Consequences of Exchangeable Interests in an Income Trust or Specified Investment Flow-Through and CICA Handbook Section 3064 – Goodwill and Intangible Assets (see note 3 to the Financial Statements).

LIQUIDITY AND CAPITAL RESOURCES

Unitholders' Equity and Non-controlling Interest

The following units were outstanding as of March 2, 2010:

	Units
Fund Units[1]	18,538,051
Liquor Stores LP Exchangeable LP Units	3,196,842
Liquor Stores LP Series 1 Exchangeable LP Units	822,076
	22,556,969

Note:
(1) Includes 15,098 Treasury Units held in respect of long-term incentive plans

The Liquor Stores Limited Partnership Exchangeable and Series 1 Exchangeable LP Units represent a non-controlling interest in the Fund. They are exchangeable, directly or indirectly, on a one-for-one basis for Fund Units at the option of the holder, under the terms of an Exchange Agreement. Each Exchangeable LP Unit and Series 1 Exchangeable LP Unit entitles the holder to receive distributions pro rata with distributions made on Fund Units.

Capital Expenditures

The Fund has two types of capital expenditures: growth and maintenance. Growth capital represents expenditures made to acquire or develop new stores or to add capacity to existing stores. Historically, growth capital has been financed by proceeds raised through equity and debt offerings or by utilizing existing long-term credit facilities. The Fund believes existing credit facilities are adequate to finance developments and modest acquisitions expected to occur in 2010. The Fund would require additional capital or financing for a larger acquisition. Maintenance capital is provided by cash from operating activities and used for store renovations or for other capital assets used in the operation of existing stores. The Fund may reserve cash from operations for planned renovations.

During the year ended December 31, 2009, the Fund opened five new stores and acquired nine stores. The new stores were funded with existing credit facilities. Subsequent to December 31, 2009 the Fund has not opened any stores but has commitments to open six.

Effect of Trust Tax Legislation

On June 22, 2007, Bill C – 52, including the provisions related to the taxation of income trusts (the "SIFT Rules"), received Royal Assent. Pursuant to the SIFT Rules, in 2011 earnings of the Fund distributed to unitholders will be subject to tax at a rate of 26.5% (currently zero). In 2012 the tax rate decreases to 25%. Taxable distributions (other than return of capital) to unitholders will be characterized as eligible dividends, a change from their current treatment as ordinary income. For discussion of SIFT Rules and limitations on growth and expansion see "Risk Factors".

The Fund's market capitalization, including that of Liquor Barn Income Fund, as of the close of trading on October 31, 2006, based on only issued and outstanding publicly-traded units, was approximately $298 million.

The Fund believes that while the application of the "safe harbour" guidelines are not a practical constraint on its ordinary growth prior to 2011, they could adversely affect the cost of raising capital and the Fund's ability to undertake more significant acquisitions. Under the "safe harbour" guidelines, the Fund could issue new equity of $221.3 million and still be within the "safe harbour" limits. See Tax Related Risks; SIFT Legislation on page 26. The long-term effect of the SIFT Rules on the Fund is yet to be determined.

Credit Facilities

The Fund renewed its credit facility with a syndicate of banks effective June 30, 2009 for a two year period. There is a total of $143 million available under the new facility, consisting of an available $95 million extendible revolving operating loan (the "Operating Line Facility") and a $48 million extendible revolving term loan (the "Term Loan Facility"). The Fund also has a $5 million USD facility with a US bank.

At March 2, 2010 there was $37.2 million drawn on the Operating Line Facility and $46.9 million drawn on the Term Loan Facility, both available until June 30, 2011.

The Fund also has $57.5 million in 6.75% Debentures maturing on December 31, 2012 and $0.5 million in 8.00% Debentures maturing on December 31, 2011. Unused proceeds of the 6.75% Debentures were temporarily used to pay down amounts outstanding on credit facilities with the intent of redrawing on the facilities to finance the Fund's growth objectives as acquisition opportunities are identified and new stores are developed.

The Fund's indebtedness is subject to a number of financial covenants. Under the terms of the Fund's credit facility, the following ratios are monitored: current ratio, funded debt to EBITDA, adjusted debt to EBITDAR, and fixed coverage ratio. As at March 3, 2010 the Fund continues to be in compliance with all covenants as described below.

Current ratio

Current ratio is the ratio of current assets to the current liabilities. Current ratio is to be maintained in a ratio greater than or equal to 1.10 to 1.00.

Funded debt to EBITDA ratio

Funded debt is all the Fund's obligations, liabilities and indebtedness which would, in accordance with GAAP, be classified on a consolidated balance sheet of the Fund as indebtedness for borrowed money of the Fund, but exclude subordinated debt, deferred taxes and accounts payable incurred in the ordinary course of the Fund's business. EBITDA is defined as the net income of the Fund plus the following: interest expense, provision for income taxes, any portion of expense in respect of non-cash items including any long-term incentive plan amounts not to be settled in cash, depreciation, amortization, deferred taxes, extraordinary and non-recurring losses to a maximum of $2.5 million in any fiscal year, write down of goodwill and other restructuring charges for store closures, amortization of inventory fair value adjustments, and non-controlling interest. EBITDA is also less any non-recurring extraordinary or one-time gains from any capital asset sales or certain foreign currency transactions.

Adjusted debt to EBITDAR

Adjusted debt is defined as the Fund's debt plus seven times rent. EBITDAR is defined as EBITDA described above plus rent.

Fixed charge coverage ratio

Fixed charge coverage ratio is the ratio of EBITDAR less the aggregate amount of unfunded capital expenditures and cash taxes divided by the sum of all interest expense and scheduled repayment of debt for the relevant period, cash distributions and rent.

Ratio	Covenant	Fund at December 31, 2009
Current	> or = 1.10:1.00	1.92:1.00
Funded debt to EBITDA	< 2.75:1.00	1.74:1.00
Adjusted debt to EBITDAR	< 5.00:1.00	3.55:1.00
Fixed charge coverage	> or = 1.00:1.00	1.11:1.00

The funded debt to EBITDA, adjusted debt to EBITDAR and fixed charge coverage ratios are calculated quarterly based on the latest rolling four quarter period completed.

Liquidity Risk

Liquidity ensures the Fund has sufficient financial resources available at all times to meet its obligations. The Fund manages liquidity risk by ensuring it has a variety of alternatives available to fund acquisitions, new store development and ongoing operations, which include cash provided by operations, bank indebtedness, issuance of new equity or debt instruments or a combination thereof. The decision to utilize a specific alternative is dependant upon capital market conditions and interest rate levels. The degree to which the Fund is leveraged may impact its ability to obtain additional financing for working capital or to finance acquisitions.

Management continuously monitors the marketplace for acquisitions and new store development opportunities and has developed financing strategies to support this growth in the current economic environment. Management believes the Fund has managed liquidity risk appropriately and does not anticipate that the current economic environment will prevent the Fund from being able to fund current operating and liquidity needs in the near term. Taking into consideration seasonal working capital requirements, the Fund believes it has available credit of approximately $35 million to finance growth opportunities.

Interest Rate Risk and Sensitivity

The Fund's indebtedness in respect of its credit facility bears interest at floating rates, which may be negatively impacted by increases in interest rates. If interest rates decrease, interest expense would be reduced. The Fund manages its interest rate risk through credit facility negotiations and by identifying upcoming credit requirements based on strategic plans.

The following table presents a sensitivity analysis to changes in market interest rates and their potential annual impact on the Fund as at December 31, 2009, assuming a combined outstanding bank indebtedness and long-term loan facility balance of $87.3 million.

(expressed in thousands of Canadian dollars)	+ 1.00%	- 1.00%
Increase (decrease) in interest expense	$ 873	$ (873)
Increase (decrease) in net earnings before income tax and non-controlling interest	(873)	873

An increase/decrease of 1.00% in market interest rates would result in a decrease/increase in the Fund's net earnings before income tax and non-controlling interest of $0.04 on a per unit basis.

Credit Risk

The Fund's financial assets that are exposed to credit risk consist primarily of cash and cash equivalents and accounts receivable. The Fund maintains its cash and cash equivalents with a major Canadian chartered bank. The Fund, in its normal course of operations, is exposed to credit risk from its wholesale customers in Alberta whose purchases represent less than 5% of the Fund's sales. Risk associated with accounts receivable is mitigated by credit management policies. Historically, bad debts from these accounts have been insignificant. The Fund is not subject to significant concentration of credit risk with respect to its customers; however, all trade receivables are due from businesses in the Alberta hospitality industry. Bad debts are insignificant in relation to total sales.

Foreign Exchange Risk

The Fund is subject to fluctuations in the value of the Canadian dollar relative to the US dollar in the normal course of business. A portion of cash flows are realized in US dollars and as such, fluctuations in the exchange rate between the Canadian dollar and US dollar may have an effect on financial results. The Fund's foreign exchange exposure is limited to US dollar denominated debt in the amount of $25 million and intercompany management fees and interest payments which totalled approximately $4.2 million for 2009.

The Fund's US subsidiaries are considered to be self-sustaining operations and the assets and liabilities of the foreign subsidiaries are translated into Canadian dollars using the current rate method of translation. Accordingly, foreign exchange gains and losses arising from the translation of the foreign subsidiaries' accounts into Canadian dollars are reported as a component of other comprehensive income. The US subsidiaries currently operate 28 out of the Fund's 236 stores.

Transactions denominated in foreign currencies are recorded at the rate of exchange on the transaction date. Monetary assets and liabilities are translated into Canadian dollars at the rate of exchange prevailing at the balance sheet date, with any resulting gain or loss being included in earnings.

Contractual Obligations

The table below sets forth, as of December 31, 2009, the contractual obligations of the Fund due in the years indicated and relates to various premises operating leases, long-term debt and convertible unsecured subordinated debentures.

(expressed in thousands of Canadian dollars)	2010	2011	2012	2013	2014	2015 and thereafter
Operating leases	$ 19,076	$ 16,634	$ 14,620	$ 12,300	$ 9,285	$ 21,180
Long-term debt	–	47,188	–	–	–	–
Debentures	–	500	57,500	–	–	–
Total	$ 19,076	$ 64,322	$ 72,120	$ 12,300	$ 9,285	$ 21,180

OFF BALANCE SHEET ARRANGEMENTS

As at March 2, 2010, the Fund does not have any off balance sheet arrangements.

CRITICAL ACCOUNTING ESTIMATES

Goodwill

Goodwill is not amortized and is assessed for impairment at the reporting unit level. The impairment test is done annually unless circumstances arise that would potentially impair the carrying value of goodwill. Any potential goodwill impairment is identified by comparing the fair value of a reporting unit to its carrying value. If the fair value of the reporting unit exceeds its carrying value, goodwill is considered not to be impaired. If the carrying value of the reporting unit exceeds its fair value, potential goodwill impairment has been identified and must be quantified by comparing the estimated fair value of the reporting unit's goodwill to its carrying value. Any goodwill impairment will result in a reduction in the carrying value of goodwill on the consolidated balance sheet and in the recognition of a non-cash impairment charge in earnings.

The Fund performed its annual goodwill impairment test as at September 30, 2009 using the discounted cash flow method of assessing fair value. Some of the key assumptions used in the discounted cash flow model included a discount rate of 9.6%, a five year sales projection, tax impacts, and projections of maintenance capital expenditures. The sales projection was based on flat sales for 2010 for existing stores with a slight increase for stores added in the latter part of 2009 and included a 2% annual inflationary increase for 2011 and beyond. Beginning in 2011, the Fund is expected to become a taxable entity. The discounted cash flow model included expected impact based on tax rates currently enacted. Maintenance capital expenditure projections were based on historical experience of the Fund.

Based on the goodwill impairment test performed, the Fund concluded that the fair value of reporting units exceeded the carrying value and there was no impairment of goodwill.

Amortization Policies and Useful Lives

The Fund amortizes property, equipment and intangible assets over the estimated useful service lives of the assets. In determining the estimated useful life of these assets, significant judgment by management is required. In determining these estimates, the Fund takes into account industry trends and Fund-specific factors, including changing technologies and expectation for the in-service period of these assets. The Fund assesses the estimated useful life of these assets on an annual basis to ensure they match the anticipated life of the asset from a revenue producing perspective. If the Fund determines that the useful life of an asset is different from the original assessment, changes to amortization will be applied prospectively.

Purchase Price Allocations

The allocation of the purchase price for acquisitions involves determining the fair values assigned to the tangible and intangible assets acquired. The Fund uses independent valuators to determine the fair value of the tangible assets and certain intangible assets of the acquired stores. Other intangible assets are determined based on a calculation of fair values by management. A discounted cash flow analysis is typically prepared to determine these fair values. Goodwill is calculated based on the purchase price less the fair value of the net tangible and intangible assets acquired.

Future Income Taxes

Determining future income taxes involves a number of assumptions and variables that could reasonably change in the period to January 1, 2011, including: the useful lives of recorded property, plant and equipment and intangible assets that determine the amount of amortization recorded thereon; the amount of discretionary tax deductions the Fund will claim from its existing tax depreciation pools, the rates of tax applicable to various jurisdictions in which the Fund is taxable and the allocation of taxable income to those jurisdictions; and the acceptance of the Fund's tax filing positions by the taxation authorities. Changes in these assumptions and variables, which are re-evaluated at each balance sheet date, could result in changes in the recorded amount of future income taxes, and these changes could be material.

CHANGES IN ACCOUNTING POLICIES

Goodwill and Intangible Assets

CICA Handbook Section 3064 provides guidance over the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The standard is effective for fiscal periods beginning on or after October 1, 2008 and requires retrospective application to prior period financial statements. Concurrent with the adoption of this standard, EIC 27 – Revenues and Expenditures during the Pre-operating Period, was withdrawn. This has resulted in a change to the Fund's accounting for store pre-opening costs as these costs will no longer be capitalized as an asset.

Effective January 1, 2009, the Fund retrospectively applied Section 3064 with a restatement of prior periods. The cumulative impact of the restatement resulted in a decrease of $0.9 million to unitholders' equity (see note 3 to the Financial Statements).

Business combinations

The CICA issued Handbook Section 1582, Business Combinations, which replaces Section 1581. This new standard aligns accounting for business combinations under Canadian GAAP and IFRS. The standard requires assets and liabilities acquired in a business combination to be measured at fair value at the acquisition date. The standard also requires acquisition-related costs, such as advisory or legal fees, incurred to effect a business combination to be expensed in the period in which they are incurred. The adoption of this standard will impact the accounting treatment of future business combinations. The revised standard is effective for business combinations occurring on or after January 1, 2011; however, early application is permitted. The Fund will be adopting the revised standard effective January 1, 2010.

Consolidated Financial Statements and Non-controlling Interests

The CICA issued Handbook Sections 1601, Consolidated Financial Statements and 1602, Non-controlling Interests, which together replace the former consolidated financial statements standard. Under the revised standards, non-controlling interests will be classified as a component of equity, and earnings and comprehensive income will be attributed to both the parent and non-controlling interest. The adoption of these standards is not expected to have a material impact to the Fund's consolidated financial statements. The revised standards are effective January 1, 2011; however early application is permitted. The Fund will be adopting the revised standard effective January 1, 2010.

ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

International Financial Reporting Standards

The Accounting Standards Board ("AcSB") has confirmed that International Financial Reporting Standards ("IFRS") will replace Canadian GAAP for publicly accountable enterprises beginning January 1, 2011. IFRS uses a conceptual framework similar to Canadian GAAP; however, there are significant differences in accounting policies that must be evaluated.

The Fund's IFRS implementation plan consists of three phases:

Phase 1: Diagnostic – This phase includes an assessment of the differences between current Canadian GAAP and IFRS, with focus on areas that may have a significant impact on the Fund.

Phase 2: Evaluation and Design – This phase includes a detailed review of all relevant IFRSs to identify differences with current accounting policies and practices under Canadian GAAP and development of solutions to address the differences identified. This includes detailed analysis of alternatives available for the first-time adoption of IFRS ("IFRS 1") and policy choices available following the implementation of IFRS. During this phase information systems, business processes and internal controls over financial reporting were analyzed to ensure they can adequately support required disclosures under IFRS.

Phase 3: Implementation – This is the final phase of the implementation plan and includes the execution of changes to information systems and business processes identified in phase 2, formal approval of accounting policies including exemptions under IFRS 1, and the development of training programs for impacted areas.

Phase 1 of the project was completed in 2008. Management determined that the most significant impacts of IFRS conversion relate to business combinations, property and equipment, asset impairment and the assessment of alternatives available under IFRS 1.

Phase 2 is complete with the exception of areas for which IFRSs are expected to change prior to 2011, such as financial instruments. Guidance for income trusts with respect to income tax, and specifically its impact on non-controlling interests is expected to be available by mid-2010. As well, proposed changes to the IFRS on leases are expected in 2010. It is unknown at this time what impact these changes may have on the Fund's transition to IFRS.

With respect to business combinations, the Fund has made the decision to early adopt CICA Handbook section 1582 Business Combinations effective January 1, 2010. This standard is converged with IFRS 3 Business Combinations. The early adoption of this standard in conjunction with the Fund's decision regarding the IFRS 1 business combination election is expected to eliminate any opening balance sheet differences for business combinations between Canadian GAAP and IFRS at January 1, 2011. Regarding property and equipment, the Fund is electing to use recent fair value as deemed cost. Taking this election available under IFRS 1 allows the Fund to use previous GAAP revaluations of fixed assets as deemed costs for assets acquired in business combinations. This minimizes differences with respect to property and equipment at the transition date.

Management has completed the assessment of information system changes required to support information requirements under IFRSs and has executed appropriate system and business process changes. Appropriate resources have been allocated to complete the implementation project by January 1, 2011. A reporting and governance structure is in place to support and communicate the changeover impact, including providing quarterly updates to the Audit Committee.

The AcSB may continue to issue Canadian accounting standards that are converged with IFRS prior to 2011, thus reducing the impact of adopting IFRS at the changeover date. As well, the Internal Accounting Standards Board ("IASB") is also expected to issue new accounting standards during the conversion period. Because of this, not all transition date financial statement adjustments are determinable at this time and the quantification of the impact of adoption of IFRS on the financial statements and operating performance measures cannot be finalized until closer to the changeover date.

FINANCIAL INSTRUMENTS

The Fund, as part of its operations, is party to a number of financial instruments. These financial instruments consist of cash and cash equivalents, accounts receivable, foreign exchange currency contracts, bank indebtedness, accounts payable and accrued liabilities, distributions payable to Unitholders and non-controlling interest, and long-term debt including convertible unsecured subordinated debentures. Financial assets are classified as available for sale, held to maturity, held for trading, or loans and receivables. Financial liabilities are classified as other financial liabilities. (See note 22 of the Financial Statements).

TRANSACTIONS WITH RELATED PARTIES

The Fund has a conflict of interest policy that requires the disclosure of potential conflicts and excludes persons with a material conflict of interest from any related decisions.

During the three and twelve months ended December 31, 2009, the Fund incurred professional fees of $38,908 and $230,831 respectively to a law firm of which a director of Liquor Stores GP Inc. (the "Liquor Stores GP"), a subsidiary of the Fund, is a partner. Rent paid to companies controlled by the Executive Chairman of the Fund amounted to $140,373 and $587,595 for the three and twelve months ended December 31, 2009 respectively. The Fund paid fees and expenses to a company controlled by the Executive Chairman of the Fund for consulting services of $13,000 and $15,427 for the three and twelve months ended December 31, 2009. These operating and administrative expenses are incurred in the normal course of business at terms similar with unrelated parties (see note 20 to the Financial Statements).

INTERNAL CONTROLS AND PROCESSES

Disclosure Controls and Procedures and Internal Control Over Financial Reporting

The Fund's disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by the Fund is recorded, processed, summarized and reported within the time periods specified under Canadian securities laws and include controls and procedures designed to ensure that information is accumulated and communicated to management, including the Chief Executive Officer and the Chief Financial Officer, to allow timely decisions regarding required disclosure.

Internal control over financial reporting ("ICFR") is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting and of the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles. Management, including the Chief Executive Officer and Chief Financial Officer, are responsible for establishing and maintaining adequate ICFR, as such term is defined in National Instrument 52-109. A material weakness in ICFR exists if the deficiency is such that there is a reasonable possibility that a material misstatement of the Fund's annual or interim consolidated financial statements will not be prevented or detected on a timely basis.

Management limited the scope of the design of disclosure controls and procedures and ICFR to exclude controls, policies and procedures of a business acquired by the Fund during the fourth quarter of 2009. Summary financial information for the Fund's Kentucky subsidiary for the year ended December 31, 2009 that has been consolidated in the Fund's financial statements is provided below.

(expressed in thousands of Canadian dollars)	Amount
Current assets	$ 13,054
Total assets	31,357
Current liabilities	4,506
Sales	18,883

The chief executive and chief financial officers certified that disclosure controls and procedures and internal controls over financial reporting were effective for the year ended December 31, 2009. Management has concluded that the Fund's Financial Statements fairly present the Fund's consolidated financial position and consolidated results of operations as of and for the fiscal year ended December 31, 2009 and have no material control changes to report.

RISK FACTORS

The Fund's results of operations, business prospects, financial condition, cash distributions to Unitholders and the trading price of the Units are subject to a number of risks. The following information is a summary only of certain risk factors and is qualified in its entirety by reference to, and must be read in conjunction with, the detailed information appearing in the Fund's Annual Information Form, which is available at www.sedar.com and the documents incorporated by reference herein. Unitholders and potential Unitholders should consider carefully the information contained herein and, in particular, the following risk factors.

These risks and uncertainties are not the only ones facing the Fund. Additional risks and uncertainties not currently known to the Fund, or that the Fund currently considers immaterial, may also impair the operations of the Fund. If any such risks actually occur, the business, financial condition, or liquidity and results of operations of the Fund, and the ability of the Fund to make distributions on the Units, could be materially adversely affected.

State of Economy

The Fund's success depends on numerous factors affecting discretionary consumer spending, including economic conditions, disposable consumer income and consumer confidence. The Fund recognizes that the current economic events are unprecedented and can provide no assurance that consumer spending patterns will not change. Adverse changes in these factors could reduce customer traffic or impose practical limits on pricing, either of which could reduce sales and EBITDA, which in turn could adversely affect the availability of distributable cash.

Unpredictability and Volatility of Unit Price

A publicly traded income trust will not necessarily trade at values determined by reference to the underlying value of its business. The prices at which the Units will trade cannot be predicted. The market price of the Units could be subject to significant fluctuations in response to variations in the market environment and in quarterly operating results and other factors. The annual yield on the Units as compared to the annual yield of other financial instruments may also influence the price of Units in the public trading markets. An increase in market interest rates will result in higher yield on other financial instruments, which could adversely affect the market price of the Units.

In addition, the securities markets have experienced significant market wide and sectoral price and volume fluctuations that have been unrelated or disproportionate to the operating performance of particular issuers. Such fluctuations may adversely affect the market price of the Units.

Growth Strategy Restriction

The Fund presently has capital and unused credit facilities available for growth and inventory in the amount of approximately $35 million as at December 31, 2009, which Management believes will provide it with sufficient funds to complete additional acquisitions and/or new store development and financing for inventory.

However, the ability of the Fund to make acquisitions beyond the amount of the current excess capital and unused credit facilities depends on the Fund being able to raise additional financing in the future through equity and/or debt capital markets. If the Fund is unable to obtain equity and/or debt financing, either at all or on favourable terms, it may not be able to complete additional acquisitions, which could have an adverse effect on the future growth prospects of the Fund.

Current Cash Distributions

Although the Fund intends to distribute the cash it receives, less expenses and amounts, if any, paid by the Fund in connection with the redemption of Units, there can be no assurance regarding the amounts of income to be generated by the Fund. The actual amounts of distributions paid by the Fund to the Unitholder will depend upon numerous factors, including profitability, debt covenants and obligations, the availability and cost of acquisitions, fluctuations in working capital, the timing and amount of capital expenditures, deductibility for tax purposes of interest payments on the Liquor Stores Operating Trusts Notes and the Liquor Barn Operating Trust Notes ("Operating Trust Notes"), applicable law and other factors beyond the control of the Fund. Cash distributions are not guaranteed and will fluctuate with the Fund's performance. The Fund has the discretion to establish cash reserves for the proper conduct of its business. Adding to these reserves in any year would reduce the amount of cash available for distribution by the Fund in that year. There can be no assurance as to the levels of cash distributions to be paid by the Fund, if any. The market value of the Units may deteriorate if the Fund is unable to maintain current distribution levels in the future, and such deterioration may be material.

Government Regulation

The Fund primarily operates in the highly regulated retail liquor industry in the Provinces of Alberta and British Columbia and the States of Alaska and Kentucky. Decisions by the Alberta Gaming and Liquor Commission ("AGLC"), British Columbia Liquor Control and Licensing Branch ("BCLCLB"), Alaska Alcoholic

Beverage Control Board ("ABCB"), or Kentucky Department of Alcoholic Beverage Control ("KYABC") or rules enacted by them, new legislation or regulations or changes to existing legislation or regulations can impact the operations of the Fund both favourably and unfavourably. There is no assurance that new legislation, regulations or changes to existing legislation, new interpretations of existing legislation, or regulations or decisions of the AGLC, the BCLCLB, the ABCB, or the KYABC will not adversely affect the licensing, operations or distributable cash of Liquor Stores.

All of the Fund's Alberta stores are operated pursuant to licenses issued by the AGLC, which must be re-applied for annually. Since its inception in 2004, the Fund has never had a store license revoked or not reissued. Management is not aware of any retail liquor store licensee having a license revoked.

Prior to December 2009, in order to operate a retail liquor store in British Columbia an operator was required to have a LRS license that was associated with a primary license (both licenses are issued by the BCLCLB). Following certain regulation changes implemented by the BCLCLB in December 2009, the status of an LRS License is no longer contingent upon the associated primary license being maintained and LRS Licenses and liquor primary licenses may now be held independent of each other. In addition to the recent "severing" of LRS Licenses and liquor primary licenses, the BCLCLB has provided notice to certain industry participants of its interpretation of certain licensing provisions which will require all liquor store operators to own the associated LRS License (effectively prohibiting a long-recognized industry practice in which liquor store operators had the option of "leasing" a LRS License from a third-party licenseholder). Although Liquor Stores owns many of its LRS Licenses, in certain instances it holds its license via this aforementioned "lease" scenario and there is no assurance that this interpretation of applicable licensing regulations will not adversely affect the licensing and operations of certain British Columbia stores.

All of the Fund's Alaska stores are operated pursuant to licenses issued by the ABCB, which must be renewed bi-annually, and its Kentucky stores are operated pursuant to licenses issued by the KYABC, which are due for renewal on an annual basis.

The AGLC, the BCLCLB, ABCB and KYABC have certain discretion in the granting or revocation of a license to operate a liquor store.

Commodity Taxes

Changes in tax rates, and their corresponding effect on product pricing, could affect sales and or earnings. If taxes increase and the Fund increases prices by the full amount of the tax, sales volumes could be adversely impacted. If the Fund is not able to pass the full amount of the tax increase on to consumers, then margins and earnings could be adversely impacted. There can be no assurance that governments will not change tax rates in the future.

Competition

The private retail distribution of alcoholic beverages in the Provinces of Alberta and British Columbia and the States of Alaska and Kentucky is both competitive and fragmented. Competition exists mainly on a local basis with the main competitive factors being location, convenience, price and service.

In Alberta, the Fund competes with other local single store operators, other local and regional chain operators, and liquor stores associated with national and regional grocery store chains. Certain of these competitors have greater financial resources than the Fund. The current regulatory regime in Alberta limits certain of the potential competitive advantages of large scale retailers by, among other things, requiring liquor stores to be operated as a separate business and prohibiting the sale of liquor in stores selling other goods and by requiring all retailers to pay the same wholesale price and a uniform "postage stamp" delivery charge. Any change in this regulatory regime could materially adversely affect the Fund's business and the results of its operations.

In British Columbia, the Fund competes with government owned and operated liquor stores, local independent stores, and wine stores. In December 2009, the British Columbia government amended certain liquor control

and licensing regulations which eliminated the requirement that a retail liquor store licensee also own and operate the related liquor-primary establishment. This amendment was followed by an amendment in February 2010 which increased the relocation distance such that a retail liquor store is not permitted to be relocated anywhere within 1.0 kilometre of an existing retail liquor store (or the site of an application to license a new retail liquor store). This arrangement limits the number of entrants who are able to enter into the market.

In each of Alaska and Kentucky, the Fund competes with local single store operators, other local and regional chain operators and liquor stores associated with U.S. national grocery store chains (and in some instances in Kentucky, with U.S. national drug store chains who also offer alcoholic products for sale). Under the Alaska and Kentucky regulatory environments, stores purchase product directly from distributors and are able to negotiate large volume discounts with suppliers. Organizations with greater financial resources are able to maintain a competitive advantage over smaller operators.

Acquisition and Development Risks

Acquisitions have been a significant part of the Fund's growth strategy. The Fund expects to continue to selectively seek strategic acquisitions in both Canada and the US. The Fund's ability to consummate and to integrate effectively any future acquisitions on terms that are favourable to it may be limited by the number of attractive acquisition targets, internal demands on the Fund's resources and, to the extent necessary, the Fund's ability to obtain financing on satisfactory terms for larger acquisitions, if at all. Acquisitions may expose the Fund to additional risks, including: difficulties in integrating administrative, financial reporting, operational and information systems and managing newly acquired operations and improving their operating efficiency; difficulties in negotiating lease renewal terms, difficulties in maintaining uniform standards, controls, procedures and policies through all of the Fund's stores; entry into markets in which the Fund has little or no direct prior experience; difficulties in retaining key employees of the acquired operations; disruptions to the Fund's ongoing business; and diversion of management time and resources.

The Fund expects that new store development will also continue to be a significant part of the Fund's growth strategy. The development of new stores is subject to many of the same risks as acquisitions including limitations on the number of attractive development opportunities and competition for such opportunities and internal demands on the Fund's resources. The rate of new store developments may be impacted by factors outside of the Fund's control such as the availability of suitable site locations if real estate development declines or the availability of contractors to perform development work. In addition, the development of new stores requires an outlay of capital based on Management's projections of future store performance, which may prove to be incorrect.

Ability to Locate, Secure and Maintain Acceptable Store Sites and to Adapt to Changing Market Conditions

The success of the Fund's liquor stores is significantly influenced by location. There can be no assurance that current locations will continue to be attractive, or that additional locations can be located and secured, as demographic patterns change. It is possible that the current locations or economic conditions where the Fund's liquor stores are located could decline in the future including as a result of the opening of stores by competitors, resulting in potentially reduced sales in those locations. There is also no assurance that future store locations will produce the same results as existing locations. To the extent that the Fund enters into long-term leases for its store locations, the Fund's ability to respond in a timely manner to changes in the demographic or retail environment at any location may be limited.

Key Personnel

The Fund's success depends on the skills, experience and effort of its key employees. The loss of services of one or more members of the Fund's key employees could significantly weaken the Fund's management expertise and its ability to deliver its services efficiently and profitably.

Labour Costs and Shortages and Labour Relations

The success of the Fund's business depends on a large number of both hourly and salaried employees. Changes in the general conditions of the employment market could affect the ability of the Fund to hire or retain staff at current wage levels. The occurrence of either of these events could have an adverse effect on the Fund's results of operations.

The Fund does not currently have any unionized staff; however, there is no assurance that some or all of the employees of the Fund will not unionize in the future. Such an occurrence could increase labour costs and thereby have an adverse effect on the Fund's results of operations. With respect to its US operations, any significant disruptions in the operations or product supply of major distributors may also have a material adverse effect on the operations of the Fund.

Supply Interruption or Delay

Liquor store operators in Alberta are dependent on Connect Logistics Services ("CLS") warehouse and Brewers Distributor Ltd. ("BDL") for the substantial majority of their products. In British Columbia, liquor store operators are dependent on the BCLDB and BDL for the majority of their products. Any significant disruption in the operations of these companies, for example as a result of an organized work stoppage, and resulting interruption in supply may have a material adverse effect on liquor store operations including the operations of the Fund and its subsidiaries.

Importance of Information and Control Systems

Information and control systems play an important role in the support of the Fund's core business processes, including store operations, finance, human resources, supply and inventory management and loss prevention. The Fund's ability to maintain and upgrade its information systems capabilities is important to its future performance.

Tax Related Risks; SIFT Rules

The income of the Fund must be computed and will be taxed in accordance with Canadian tax laws, all of which may be changed in a manner that could adversely affect the amount of distributable cash. There can be no assurance that Canadian federal income tax laws respecting the treatment of mutual fund trusts will not be changed in a manner that adversely affects the holders of Units. If the Fund ceases to qualify as a "mutual fund trust" under the Tax Act, the income tax consequences could materially and adversely affect Unitholders. Further, interest on the Operating Trust Notes and other debt accrues at the Fund level for income tax purposes whether or not actually paid. The declaration of trust dated August 10, 2004 pursuant to which the Fund was established ("Declaration of Trust") provides that an amount equal to the taxable income of the Fund will be distributed each year to Unitholders in order to eliminate the Fund's taxable income and provides that additional Units may be distributed to Unitholders in lieu of cash distributions. Unitholders will generally be required to include an amount equal to the fair market value of those Units in their taxable income, in circumstances when they do not directly receive a cash distribution.

If the Fund ceases to qualify as a "mutual fund trust" under the Tax Act, the Units will cease to be qualified investments for Deferred Income Plans, TFSAs and RESPs ("Exempt Plans"). The Fund will endeavour to ensure that the Units continue to be qualified investments for Exempt Plans. The Tax Act imposes penalties for the acquisition or holding of investments that are not qualified investments in such plans and there is no assurance that the conditions prescribed for such qualified investments will be adhered to at any particular time. If the Fund ceases to qualify as a mutual fund trust for purposes of the Tax Act, the Fund may be required to pay tax under Part XII.2 of the Tax Act. The payment of Part XII.2 tax by the Fund will affect the amount of cash available for distribution by the Fund and may have adverse consequences for Unitholders.

The SIFT Rules relating to trusts and partnerships, first announced on October 31, 2006, has been enacted and may significantly change the taxation of most publicly traded trusts and partnerships, including income trusts

such as the Fund, and distributions and allocations from these entities to their investors. Existing trusts, such as the Fund, will have a transition period and, subject to the qualification below, will not be subject to the new rules until January 1, 2011. No assurance can be given that Canadian federal income tax law respecting the taxation of income trusts and other flow-through entities will not be further changed in a manner that adversely affects the Fund and its Unitholders. The SIFT Rules apply an entity level tax on certain income (other than taxable dividends) earned by a SIFT trust, and treats the distributions of such income received by unitholders of a SIFT trust as taxable dividends received from a taxable Canadian corporation. Unitholders subject to the highest marginal rate of tax would receive an after-tax return approximately equal to the after-tax return if pre-tax distributions had been distributed directly to and taxed in the hands of the Unitholders. However, the incidence of entity level tax will be a cost to other types of Unitholders including but not limited to, pension funds and non-residents who would not benefit from the characterization of distributions as eligible dividends.

The Fund will constitute a SIFT trust and, as a result, the Fund and its Unitholders will be subject to the SIFT Rules commencing in 2011.

On December 15, 2006, the Department of Finance issued the Normal Growth Guidelines (the "Guidelines"). The Guidelines indicate that the 2011 date will continue to apply in respect of any SIFT trust or partnership whose equity capital grows as a result of issuances of new equity (which includes trust units and debt that is convertible into trust units and may include other substitutes for such equity) before 2011, by an amount that does not exceed the greater of $50 million annually and a "safe harbour" amount that is a percentage of the SIFT's market capitalization as of the end of trading on October 31, 2006 (measured in terms of the value of a SIFT's issued and outstanding publicly-traded units, not including debt, options or other interests that were convertible into SIFT units). For the period from November 1, 2006 to the end of 2007, the Guidelines provide that a SIFT's safe harbour will be 40% of the October 31, 2006 benchmark. If the Fund issues additional Units, convertible debt or other equity substitutes on or before 2011, it may become subject to the SIFT Rules prior to 2011. No assurance can be provided that the SIFT Rules will not apply to the Fund prior to 2011. On December 4, 2008, the Department of Finance announced changes to the Guidelines to allow a SIFT Trust to accelerate the utilization of the SIFT Trust's annual safe harbour amount for each of 2009 and 2010 so that the aggregate safe harbour amount for 2009 and 2010 is available on and after December 4, 2008. This change does not alter the maximum permitted expansion for a SIFT Trust, but allows a SIFT Trust to use its normal growth room remaining as of December 4, 2008 in a single year, rather than utilizing portions of the permitted normal growth over the 2009 and 2010 years.

It is expected that the SIFT Rules will subject the Fund to trust level taxation beginning on January 1, 2011, which will reduce the amount of cash available for distributions to Unitholders. The Fund estimates that the SIFT Rules will, commencing on January 1, 2011, reduce the amount of cash available to the Fund to distribute to its Unitholders by an amount equal to approximately 26.5% in 2011 and 25.0% in 2012, depending on jurisdiction, of the pre-tax income available for distribution by the Fund. A reduction in distributions could adversely affect the value of the Units. A reduction in the value of the Units would be expected to increase the cost to the Fund of raising capital in the public capital markets. There can be no assurance that the Fund will be able to reorganize its legal and tax structure to reduce the expected impact of the SIFT Rules. In addition, there can be no assurance that the Fund will maintain its "grandfathered" status under the SIFT Rules until 2011. The Fund does not expect to exceed "normal growth" in the transition period. If the Fund exceeds "normal growth" during the transitional period from October 31, 2006 to December 31, 2010, the SIFT Rules would become effective on a date earlier than January 1, 2011. Loss of grandfathered status could have a material and adverse effect on the value of the Units.

The SIFT Rules provide that the federal tax rate will be the federal general corporate tax rate, which is expected to be 16.5% in 2011 and 15% in 2012, plus the provincial component. The provincial component of the

SIFT tax will be equal to the general provincial corporate income tax rate in each province in which the SIFT has a permanent establishment. For purposes of calculating this component of the tax, the general corporate taxable income allocation formula will be used. Specifically, the Fund's taxable distributions will be allocated to provinces by taking half of the aggregate of:

- that proportion of the Fund's taxable distributions for the year that the Fund's wages and salaries in the province are of its total wages and salaries in Canada; and
- that proportion of the Fund's taxable distributions for the year that the Fund's gross revenues in the province are of its total gross revenues in Canada.

The Fund would be considered to have permanent establishments in Alberta and British Columbia. The Alberta and British Columbia provincial tax rates are expected to be 10% in 2011. Taxable distributions that are not allocated to any province would instead be subject to a 10% rate constituting the provincial component.

The Fund continues to review the impact of the SIFT Rules on its business strategy and to evaluate strategic alternatives that it could elect to pursue in response to the SIFT Rules. No assurance can be provided that the Fund will not undertake actions in the future that could cause the SIFT Rules to apply to it prior to 2011.

Leverage and Restrictive Covenants

The Fund has third party debt service obligations under the Credit Facility and any replacement or other credit facilities and the 6.75% Debentures and the 8.00% Debentures. The degree to which the Fund is leveraged could have important consequences to the holders of the Units, including: (i) a portion of the Fund's cash flow from operations is dedicated to the payment of interest on its indebtedness, thereby reducing funds available for distribution; (ii) certain of the Fund's borrowings are at variable rates of interest, which exposes the Fund to the risk of increased interest rates. The Fund's ability to make scheduled payments of principal and interest on, or to refinance, its indebtedness depends on its future operating performance and cash flow, which are subject to prevailing economic conditions, prevailing interest rate levels, and financial, competitive, business and other factors, many of which are beyond its control.

The Credit Facility contains certain customary operating covenants that limit the discretion of Management with respect to certain business matters. These covenants place restrictions on, among other things, the ability of the Fund to incur additional indebtedness, to create liens or other encumbrances, to pay distributions or make certain other payments, investments, loans and guarantees and to sell or otherwise dispose of assets and merge or consolidate with another entity. A failure to comply with the obligations in the agreements in respect of the Credit Facility could result in an event of default which, if not cured or waived, could permit acceleration of the relevant indebtedness. If the indebtedness under the Credit Facility were to be accelerated, there can be no assurance that the Fund's assets would be sufficient to repay in full that indebtedness.

NON-GAAP MEASURES

References to "EBITDA" are to earnings before interest, income taxes, depreciation and amortization and references to "distributable cash" are to cash available for distribution to unitholders in accordance with the distribution policies of the Fund. Management believes that, in addition to income or loss, EBITDA and distributable cash are useful supplemental measures of performance. Distributable cash of the Fund is a measure generally used by Canadian open-ended trusts as an indicator of financial performance. As one of the factors that may be considered relevant by unitholders and prospective investors is the cash distributed by the Fund relative to the price of the Fund's trust units, management believes that distributable cash of the Fund is a useful supplemental measure that may assist unitholders and prospective investors in assessing an investment in the Fund.

For a reconciliation of distributable cash to cash provided by operating activities please see “Distributable cash per unit (Fund Units and Exchangeable Units)”.

Adjusted gross margin has been derived by adding back inventory fair value adjustments to gross margin as required under Canadian GAAP.

Operating margin for purposes of disclosure under “Operating Results” has been derived by adding interest expense, amortization of inventory fair value adjustments, pre-opening cost expense and amortization of property and equipment and intangibles to net earnings before non-controlling interest. Operating margin as a percentage of sales is calculated by dividing operating margin by sales. Operating margin before non-recurring items has been derived by adding non-recurring items to operating margin as described above.

Non-recurring items include expenses incurred by the Fund for expenses that are not part of on-going operations and that are not expected to recur. These include professional fees paid in respect of law suits that originated with regards to the Fund’s acquisition of Liquor Barn Income Fund in 2007, non-ordinary severance expenses and acquisition related foreign exchange gains and losses.

“Payout ratio” is calculated by dividing cash distributions declared by distributable cash.

Comparable same store sales includes sales for stores that have been open 12 full months at the beginning of the reporting period. Certain stores have been excluded as follows: stores which have significant wholesale business and stores which operate within close proximity to Liquor Depot stores which were opened in 2008. For the twelve months ended December 31, 2009, five stores located in close proximity to other Liquor Depot stores have been excluded from the same store sales comparison. For the three months ended December 31, 2009, no such stores were excluded. It is management’s intention to continue to operate both the existing and new locations.

Operating margin, operating margin as a percentage of sales, distributable cash, EBITDA, payout ratio and same store sales are not measures recognized by GAAP and do not have a standardized meaning prescribed by GAAP. Investors are cautioned that operating margin, operating margin as a percentage of sales, distributable cash, EBITDA, payout ratio and same store sales should not replace net earnings or loss (as determined in accordance with GAAP) as an indicator of the Fund’s performance, of its cash flows from operating, investing and financing activities or as a measure of its liquidity and cash flows. The Fund’s method of calculating operating margin, operating margin as a percentage of sales, distributable cash, EBITDA, payout ratio and same store sales may differ from the methods used by other issuers. Therefore, the Fund’s operating margin, operating margin as a percentage of sales, distributable cash, EBITDA, payout ratio and same store sales may not be comparable to similar measures presented by other issuers.

SUPPLEMENTAL LIQUIDITY INFORMATION

Distributable cash is a non-GAAP measure that provides an indication of the Fund's ability to sustain distributions while maintaining productive capacity. In addition to comparing distributable cash to its nearest GAAP measure, cash provided by operating activities, a comparison can be made to earnings before non-controlling interest. The following table compares cash provided by operating activities, earnings before non-controlling interest and distributable cash before non-recurring items to cash distributions declared on Units combined with cash distributions in respect of non-controlling interests in the Fund's subsidiaries.

	Three months ended December 31,	Year ended December 31,		
(expressed in thousands of Canadian dollars)	**2009**	**2009**	2008 (restated)[1]	2007 (restated)[1]
Cash flow provided by operating activities	**$ 8,670**	**$ 45,633**	$ 35,747	$ 15,151
Earnings before non-controlling interest	**9,836**	**29,048**	23,995	15,544
Distributable cash before non-recurring items	**12,579**	**40,911**	38,673	31,796
Actual cash distributions declared relating to the period	**(9,128)**	**(36,894)**	(36,806)	(28,332)
Excess (deficiency) of cash provided by operating activities over cash distributions declared	**$ (458)**	**$ 8,739**	$ (1,059)	$ (13,181)
Excess (deficiency) of earnings before non-controlling interest over cash distributions declared	**$ 708**	**$ (7,846)**	$ (12,811)	$ (12,788)
Excess of distributable cash before non-recurring items over cash distributions declared	**$ 3,451**	**$ 4,017**	$ 1,867	$ 3,464

(1) Comparative information for 2007 and 2008 has been restated in accordance with the adoption of CICA Handbook Section 3064 - Goodwill and Intangible Assets.

Approximately 20% of annual sales occur in the first quarter of the year and 26% in the second quarter. Sales are generally stronger in the latter part of the year making up approximately 54% of annual sales. Consequently in the first quarter, the Fund typically reduces inventory levels resulting in increased cash flow provided by operating activities. As sales increase throughout the year and inventory levels rise accordingly, cash flow provided by operating activities typically declines.

On an annualized basis and subsequent to the 2007 enactment of legislation concerning the taxation of income trusts, the Fund's cash distributions have exceeded both cash flow from operating activities and earnings before non-controlling interest. Taking into consideration the Fund's distribution policies and assuming continued growth of the Fund's operations, it is unlikely that cash flow from operating activities or earnings before non-controlling interest would exceed its cash distributions in the foreseeable future.

Excess or Deficiency of Cash Flow from Operating Activities Over Cash Distributions

For the reasons explained below, the Fund believes distributable cash before non-recurring items provides a better indication of the Fund's ability to sustain cash distributions while maintaining its productive capacity than does the GAAP measure cash provided by operating activities.

Net Change in Non-Cash Working Capital

The Fund's investments in working capital relate to the Fund's growth, commercial terms with the Fund's suppliers of alcoholic beverages and seasonal fluctuations in inventory levels.

Between January 1, 2006 and December 31, 2009, the Fund developed 29 stores. Under GAAP, the purchases of inventory to open these stores are treated as uses of cash from operating activities rather than as expenditures necessary for the Fund's growth.

Under GAAP, significant investments in inventory following the acquisition of stores are also treated as a use of cash from operating activities rather than as expenditures necessary for the Fund's growth. Between January 1, 2006 and December 31, 2009 the Fund acquired 141 stores. With the exception of the Brown Jug and Kentucky stores, the majority of the stores acquired did not have sufficient inventory to meet the Fund's operating standards related to selection and profitability.

The Fund's major suppliers of alcoholic beverages in Canada require payment prior to delivery of inventory. As a consequence the Fund has a strategy of financing inventory with the use of its credit facilities. Under GAAP, the use of the credit facilities to finance inventory is treated as a financing activity.

Inventory levels are subject to fluctuations related to the timing of opportunities to purchase inventory when favourable buying conditions arise. Historically, these opportunities have followed a seasonal pattern where inventory levels increase in the final quarter of the year and decrease in the first quarter of the year.

The acquisitions of the Brown Jug stores in Alaska in 2008 and the Kentucky stores in 2009 are a departure from the Fund's historic experience. When the Brown Jug and Kentucky stores were acquired, no liabilities were assumed and no additional investment in inventory was required. In both Alaska and Kentucky trade terms are available and accounts payable finance a portion of inventory. Subsequent to the acquisitions, there was an increase in accounts payable related to the US operations. The Fund believes that its determination of distributable cash before non-recurring items is more indicative of its annual results.

Provision for Financing Charges

Financing fees represent charges incurred upon the renewal of the credit facility agreement. For GAAP, the fees relating to the Operating Facility and Term Loan Facility were netted against bank indebtedness and long-term debt respectively and the expense is recognized over the remaining credit facility term as a non-cash amortization charge under operating activities. The Fund views these charges as cash costs and has deducted them from distributable cash.

The following table provides an analysis of the total expenditures on financing charges:

	Three months ended December 31,		Year ended December 31,	
(expressed in thousands of Canadian dollars)	**2009**	2008	**2009**	2008
Amortization of financing charges related to:				
Operating Line Facility	**$ 85**	$ –	**$ 169**	$ –
Term Loan Facility	**23**	–	**47**	–
Total provision for financing charges	**$ 108**	$ –	**$ 216**	$ –

Provision for Non-Growth Property and Equipment

Maintenance of Productive Capacity

In order to maintain its productive capacity, the Fund incurs expenses for routine maintenance and makes expenditures for the replacement of long lived assets ("non-growth property and equipment"). In the determination of distributable cash, provisions may be made for anticipated replacements of long lived assets not yet recorded in the accounts of the Fund.

The following table provides an analysis of the total expenditures on property and equipment and the amounts reserved for further non-growth expenditures:

	Three months ended December 31,				Year ended December 31,			
(expressed in thousands of Canadian dollars)		**2009**		2008		**2009**		2008
Purchase of property and equipment	**$**	**2,621**	$	2,594	**$**	**5,429**	$	6,320
Growth expenditures including amounts relating to developed stores		**(2,563)**		(2,506)		**(5,061)**		(5,867)
Purchase of non-growth property and equipment		**58**		88		**368**		453
Provision for further non-growth property and equipment expenditures		**260**		-		**260**		(100)
Total provision for non-growth property and equipment	**$**	**318**	$	88	**$**	**628**	$	353

Pre-Opening Costs

Pre-opening costs represent incremental direct costs incurred in acquiring and developing new retail liquor stores. For GAAP, effective January 1, 2009, these expenditures are treated as uses of cash from operating activities rather than as investments in store growth. The Fund views these costs as necessary for growth and has added them back for purposes of distributable cash.

The following table provides an analysis of the total expenditures on pre-opening costs:

	Three months ended December 31,				Year ended December 31,			
(expressed in thousands of Canadian dollars)		**2009**		2008		**2009**		2008
Pre-opening cost expenditures	**$**	**457**	$	415	**$**	**685**	$	1,289
Pre-opening cost expenditures for subsequently abandoned transactions		**-**		(14)		**-**		(62)
Total provision for pre-opening costs	**$**	**457**	$	401	**$**	**685**	$	1,227

Excess of Distributions Over Earnings Before Non-Controlling Interest

Earnings before non-controlling interest includes a number of non-cash charges which result in distributions exceeding earnings before non-controlling interest. Non-cash charges include: vesting of awards under unit-based compensation plans, amortization of property and equipment, intangible assets, inventory fair value adjustments, non-cash interest and future income tax expense. These non-cash charges are added back in the determination of cash provided by operating activities.

Unit Based Compensation Plans

In 2008, the Fund adopted a new incentive plan, the Unit Award Incentive Plan ("UAIP") to replace its existing long-term incentive plans. In determining distributable cash the Fund's practice was to provide for the cost of awards under the former plans when the amount of the awards and the conditions under which the awards would vest were reasonably determinable. Under GAAP, the expense related to the awards is recognized over the vesting period.

No new Unit awards are being granted under the former plans and there are currently 15,098 Units scheduled to vest in 2011. Once the remaining Units vest management intends to eliminate these plans.

The Fund has historically utilized long-term incentive plan awards to reward certain employees for significant performance and associated per Unit cash flow growth and has taken into consideration awards under Unit based compensation plans in its determination of distributable cash. When the amount of the award and the conditions under which the awards will vest were reasonably determinable, the Fund deducted the full amount of the award from distributable cash. As a consequence, the recognition of this expense for financial statement purposes had already been taken into consideration in the determination of distributable cash.

Under the UAIP, the Compensation Committee of the Board of Directors of Liquor Stores GP Inc. has complete discretion over the granting of Units, the timing of any and all awards as well as the circumstances under which the Units granted will vest. The Compensation Committee has authority to grant restricted Units which vest only as to time and performance awards for which performance criteria and scalable multipliers can be designed to reward plan participants for the Fund's performance. No awards have been granted to date under the UAIP.

On June 16, 2009 the Unitholders of the Fund approved the adoption of the Unit Option Plan ("UOP") which is intended to aid in attracting, retaining and motivating officers, employees, directors and other eligible service providers of the Fund and its subsidiaries, and to provide such persons with an incentive to continue in the long term service of the Fund and its subsidiaries, and to create in such persons a direct interest in the future success of the operations of the Fund and its subsidiaries by tying incentive compensation to increases in the value of the Trust Units of the Fund. Options granted pursuant to the UOP will have a term not exceeding five years and vest in such manner as determined by the Board. The exercise price of options granted will be determined by the Board at the time of grant, provided that in no event shall the exercise price be less than the last closing price of the Trust Units on the TSX preceding the time of grant. No awards have been granted to date under the UOP.

Inventory Fair Value Adjustments

Inventory fair value adjustments arise from acquisitions. Valuation principles require that the element of profit related to inventory buying and associated activities be recognized in the cost of inventory at the date of acquisition. The Fund amortizes inventory fair value adjustments over a three-month period, which represents the average time it takes for inventory to turn over. The amortization of the inventory adjustment has no impact on future cash flows of the Fund as they are part of the purchase price allocation done at the time of acquisition.

Amortization of Property and Equipment

The Fund does not believe that amortization of property and equipment, namely leasehold improvements, as reflected in its GAAP financial statements reflects the economic cost to sustain its operations. This belief is based on the results of independent appraisals conducted at the time the Fund acquires stores. Generally, the result of these appraisals is that the values assigned to leasehold improvements at the time of acquisition exceed the carrying value of these assets in the accounts of the acquired business, indicating that amortization provided on a GAAP basis exceeds the economic cost of the assets consumed.

The principal reasons that amortization of property and equipment exceeds maintenance capital is that amortization of leasehold improvements is determined based on the initial term of the lease plus one lease renewal period. Leasehold improvements generally have an economic life longer than this period. Amortization of leasehold improvements represented a substantial portion of the Fund's amortization of property and equipment during the period from January 1, 2006 to December 31, 2009.

Leases and Licenses

These items relate to fair value adjustments at the time the Fund completes acquisitions.

Favourable and unfavourable leases represent market value rents for the term of the leases assumed by the Fund. While rent escalations on renewal or for an option period have an impact on Fund's earnings and cash flow from operations, the amortization of these items does not. The Fund leases the locations for virtually all of its stores and lease renewals are staggered.

At the time of a store acquisition a fair value is assigned to the licenses acquired. The cost of definite life licenses is amortized over the life of the lease and all renewal terms.

Given the life of the favourable and unfavourable leases and the licenses, the amortization of these items has limited impact on the sustainability of current distributions and no impact on the Fund's productive capacity in the foreseeable future.

Non-cash Interest

The non-cash interest relates to the Fund's convertible subordinated debentures and primarily to the $57.5 million principal amount 6.75% Debentures issued by the Fund in December 2007 and January 2008. The amount of the liability initially recorded in the Fund's accounts with respect to the 6.75% Debentures was approximately $50.0 million. The issue costs and the value of the conversion feature comprise the difference between the amount recorded in the Fund's accounts and the principal amount of the debentures. The non-cash interest represents the accretion of the debt balance to the amount owing at maturity.

The contractual requirement to repay the principal amount of the debentures is reflected in the table on page 18.

Future Income Taxes

The provisions for future income taxes in the Fund's accounts are to provide an estimate of what the future tax liability may be on January 1, 2011. These provisions do not result in cash taxes payable in the periods presented as current legislation will not result in the Fund being taxable until 2011.

It is expected that the foregoing non-cash charges will continue to cause distributions to exceed net earnings for the foreseeable future. The non-cash non-recurring items include: professional and consulting costs related to the Liquor Barn acquisition, store closure costs, rent obligations, amortization, a goodwill adjustment, foreign exchange gains resulting from the acquisition of Brown Jug stores, and other non-significant charges.

Non-recurring Items

In 2009, non-recurring items reduced earnings before non-controlling interest by approximately $1.1 million. The Fund does not believe that this reduction is meaningful in evaluating the sustainability of its cash distributions.

FORWARD LOOKING STATEMENTS

This management's discussion and analysis contains forward-looking statements. All statements other than statements of historical fact contained in this management's discussion and analysis are forward-looking statements, including, without limitation, statements regarding the future financial position, cash distributions, business strategy, proposed or recent acquisitions and the benefits to be derived therefrom, budgets, litigation, projected costs and plans and objectives of or involving the Fund. You can identify many of these statements by looking for words such as "believes", "expects", "will", "intends", "projects", "anticipates", "estimates", "continues" or similar words or the negative thereof. These forward-looking statements include statements with respect to the amount and timing of the payment of the distributions of the Fund. There can be no assurance that the plans, intentions or expectations upon which these forward-looking statements are based will occur. Forward-looking statements are subject to risks, uncertainties and assumptions, including, but not limited to, those discussed elsewhere in this management's discussion and analysis. There can be no assurance that such expectations will prove to be correct.

Some of the factors that could affect future results and could cause results to differ materially from those expressed in the forward-looking statements contained herein include, but are not limited to, those discussed under "Risk Factors". Specific forward-looking statements contained in this management's discussion and analysis include, among others, the management's expectations that the Fund will have sufficient funds to complete store acquisitions, develop new stores and finance inventory.

The information contained in this management's discussion and analysis, including the information set forth under "Risk Factors", identifies additional factors that could affect the operating results and performance of the Fund.

The forward-looking statements contained herein are expressly qualified in their entirety by this cautionary statement. The forward-looking statements included in this management's discussion and analysis is made as of the date of this management's discussion and analysis and the Fund assumes no obligation to update or revise them to reflect new events or circumstances except as expressly required by applicable securities law.

Auditors' Report

To the Unitholders of Liquor Stores Income Fund

We have audited the consolidated balance sheets of **Liquor Stores Income Fund** as at December 31, 2009 and 2008 and the consolidated statements of earnings, comprehensive income, changes in unitholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

March 2, 2010

Management's Responsibility for Financial Statements

The accompanying financial statements of Liquor Stores Income Fund have been prepared by management in accordance with Canadian generally accepted accounting principles. Liquor Stores Income Fund's accounting procedures and related systems of internal control are designed to provide reasonable assurance that its assets are safeguarded and its financial records are reliable. In recognizing that the Fund is responsible for both the integrity and objectivity of the financial statements, management is satisfied that the financial information throughout the balance of this annual report is consistent with the information presented in the financial statements.

PricewaterhouseCoopers LLP have been appointed to serve as the Fund's external auditors. They have examined the financial statements of the Fund for the year ending December 31, 2009.

The Audit Committee has reviewed these statements with management and the auditors, and has reported to the Board of Directors of Liquor Stores GP Inc., the administrator of the Fund. The Board of Directors of Liquor Stores GP Inc. has approved the information contained in the financial statements of Liquor Stores Income Fund which are included in this annual report.

Rick Crook President & CEO Edmonton, Alberta	Patrick de Grace Vice President Finance & CFO Edmonton, Alberta

March 3, 2010

Consolidated Balance Sheets

December 31, 2009 and 2008
(expressed in thousands of Canadian dollars)

	2009	2008 (restated) (note 3)
Assets		
Current assets		
Cash and cash equivalents	$ 5,288	$ 3,530
Accounts receivable	1,846	1,928
Inventory (at cost)	122,571	114,072
Prepaid expenses and deposits (note 5)	2,031	1,932
	131,736	121,462
Deposits on future acquisitions (note 5)	-	10
Note receivable	-	310
Property and equipment (note 7)	47,013	46,743
Intangible assets (note 8)	47,963	48,198
Goodwill (note 9)	283,097	271,533
	$ 509,809	$ 488,256
Liabilities		
Current liabilities		
Bank indebtedness (note 10 (a))	$ 41,094	$ 31,172
Accounts payable and accrued liabilities	24,554	21,033
Distributions payable to unitholders (note 11)	2,493	2,478
Distributions payable to non-controlling interest (note 11)	547	557
Current portion of long-term debt (note 10 (b))	-	28,000
	68,688	83,240
Long-term debt (note 10 (b))	100,126	51,742
Future income tax liability (note 12)	9,254	10,616
Non-controlling interest (note 13)	45,576	48,013
	223,644	193,611
Unitholders' Equity		
Fund Units (note 16)	311,044	309,638
Equity component of convertible debentures	4,970	4,970
Contributed surplus	857	1,156
Accumulated other comprehensive income	(2,025)	1,404
Cumulative undistributed earnings (excess distributions)	(28,681)	(22,523)
	286,165	294,645
	$ 509,809	$ 488,256

Consolidated Statements of Earnings and Comprehensive Income

For the years ended December 31, 2009 and 2008
(expressed in thousands of Canadian dollars, except per unit amounts)

		2009		2008 (restated) (note 3)
Consolidated Statements of Earnings				
Sales	$	541,049	$	482,915
Cost of sales		404,550		361,630
Gross margin		136,499		121,285
Operating and administrative expense		91,253		81,353
Operating earnings before amortization, interest and other		45,246		39,932
Amortization				
Property and equipment		6,271		6,269
Intangible assets		2,891		3,219
		9,162		9,488
		36,084		30,444
Interest expense and other				
Bank indebtedness		1,508		931
Long-term debt		1,113		859
Convertible debentures		5,252		5,088
Loss (gain) on foreign exchange		746		(3,247)
Gain on sale of investment (note 6)		(179)		-
Goodwill adjustment for store closures		-		624
		8,440		4,255
Earnings before income tax and non-controlling interest		27,644		26,189
Future income tax (recovery) expense		(1,404)		2,194
Earnings before non-controlling interest		29,048		23,995
Non-controlling interest (note 13)		5,319		5,139
Net earnings for the year	$	23,729	$	18,856
Earnings per Unit (note 18)				
Basic	$	1.29	$	1.03
Diluted	$	1.27	$	1.03
Consolidated Statements of Comprehensive Income				
Net earnings for the year	$	23,729	$	18,856
Other comprehensive (loss) gain				
Net (loss) gain on translation of self-sustaining foreign operations		(3,429)		1,404
Comprehensive income for the year	$	20,300	$	20,260

Consolidated Statements of Changes in Unitholders' Equity

For the years ended December 31, 2009 and 2008
(expressed in thousands of Canadian dollars)

	Fund Units	Equity component of convertible debentures	Contributed surplus	Accumulated other comprehensive income	Cumulative undistributed earnings (excess distributions)	Total Unitholders' equity
Balance – December 31, 2007	$ 308,087	$ 4,340	$ 558	$ –	$ (11,307)	$ 301,678
Change in accounting policy (note 3b)	607	–	–	–	95	702
Balance – December 31, 2007 Restated	$ 308,694	$ 4,340	$ 558	$ –	$ (11,212)	$ 302,380
Units issued for exchangeable units	707	–	–	–	–	707
Treasury units issued	1,060	–	–	–	–	1,060
Vested long-term incentive plan units	326	–	(341)	–	–	(15)
Cash distributions on vested units	(12)	–	–	–	–	(12)
Treasury units	(1,045)	–	–	–	–	(1,045)
Exercise of over-allotment option	–	630	–	–	–	630
Unit-based compensation expense	–	–	939	–	–	939
Foreign currency translation adjustment	–	–	–	1,404	–	1,404
Net earnings for the year	–	–	–	–	19,259	19,259
Distributions declared	–	–	–	–	(29,717)	(29,717)
Balance – December 31, 2008	$ 309,730	$ 4,970	$ 1,156	$ 1,404	$ (21,670)	$ 295,590
Change in accounting policy (note 3a)	(92)	–	–	–	(853)	(945)
Balance – December 31, 2008 Restated	$ 309,638	$ 4,970	$ 1,156	$ 1,404	$ (22,523)	$ 294,645
Units issued for exchangeable units	722	–	–	–	–	722
Vested long-term incentive plan units	674	–	(674)	–	–	–
Forfeited long-term incentive plan units	68	–	–	–	–	68
Cash distributions on vested units	(58)	–	–	–	–	(58)
Unit-based compensation expense	–	–	375	–	–	375
Foreign currency translation adjustment	–	–	–	(3,429)	–	(3,429)
Net earnings for the year	–	–	–	–	23,729	23,729
Distributions declared	–	–	–	–	(29,887)	(29,887)
Balance – December 31, 2009	$ 311,044	$ 4,970	$ 857	$ (2,025)	$ (28,681)	$ 286,165

Consolidated Statements of Cash Flows

For the years ended December 31, 2009 and 2008
(expressed in thousands of Canadian dollars)

	2009	2008 (restated) (note 3)
Cash provided by (used in)		
Operating activities		
Net earnings for the year	$ 23,729	$ 18,856
Items not affecting cash		
Amortization	9,162	9,488
Amortization of inventory fair value adjustment	676	399
Amortization of financing charges	216	–
Goodwill adjustment for store closures	–	624
Non-cash interest on convertible debentures	1,330	1,173
Future income tax (recovery) expense	(1,404)	2,194
Unrealized gain on foreign currency	530	–
Gain on sale of investment (note 6)	(179)	–
Non-controlling interest	5,319	5,139
Unit-based compensation (note 19 (a))	375	894
Loss on sale of forfeited incentive plan units	30	–
	39,784	38,767
Net change in non-cash working capital items (note 21)	5,849	(3,020)
	45,633	35,747
Financing activities		
Increase in bank indebtedness	9,575	31,172
Proceeds of long-term debt	18,720	7,185
Repayment of long-term debt	–	(2,000)
Distributions paid to unitholders (note 11)	(29,872)	(29,709)
Distributions paid to non-controlling interest (note 11)	(6,593)	(7,234)
Dividends paid to non-controlling interest by subsidiaries (note 13)	(425)	(392)
Net distributions and proceeds on long-term incentive plan units	(20)	(12)
	(8,615)	(990)
Investing activities		
Business acquisitions (note 4)	(31,162)	(43,760)
Proceeds from sale of investments (note 6)	966	–
Net deposits on future acquisitions	10	50
Note receivable (note 6)	234	(310)
Purchase of property and equipment	(5,429)	(6,320)
Purchase of intangible assets	(4)	–
	(35,385)	(50,340)
Foreign exchange gain (loss) on cash held in foreign currency	125	(385)
Increase (decrease) in cash and cash equivalents	1,758	(15,968)
Cash and cash equivalents balance, beginning of year	3,530	19,498
Cash and cash equivalents balance, end of year	$ 5,288	$ 3,530

Notes to Consolidated Financial Statements

December 31, 2009

1. NATURE OF OPERATIONS AND ORGANIZATION

Liquor Stores Income Fund (the "Fund") is an unincorporated, open ended, limited purpose trust established under the laws of the Province of Alberta pursuant to a Declaration of Trust dated August 10, 2004.

As at December 31, 2009, the Fund operated 236 retail liquor stores, of which 173 (2008 - 168) were in Alberta, 35 (2008 - 35) were in British Columbia, 20 (2008 - 19) were in Alaska and eight (2008 - nil) were in Kentucky. Of the stores operated, 205 (2008 - 196) were acquired by the Fund and 31 (2008 - 26) were developed by the Fund.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION

The accompanying consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP").

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. For example, goodwill is assessed for impairment based on estimates of fair value and amortization of property and equipment is based on their estimated useful lives. These estimates are reviewed periodically and, as adjustments become necessary, they are reported in income in the period in which they become known.

(a) Basis of presentation

These consolidated financial statements include the accounts of the Fund, its wholly owned subsidiaries Liquor Stores Operating Trust, Liquor Barn Operating Trust, Liquor Barn GP Inc. and controlling interests in Liquor Stores Limited Partnership, Liquor Barn Limited Partnership, Liquor Stores GP Inc., and several operating subsidiaries thereof, its 50% owned subsidiary Vines of Riverbend Limited Partnership ("Vines"), its 80% owned subsidiary Corinthia Liquor Store Limited Partnership and its 50% owned subsidiary Crossroads Liquor Depot. All inter-entity balances and transactions have been eliminated on consolidation.

(b) Revenue recognition

Revenue is generated from sales to customers through retail stores and licensee sales to commercial customers. Revenue from retail sales is recognized at the point of sale and from commercial sales at the time of shipment.

(c) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and balances with banks.

(d) Inventory

Inventory, consisting primarily of liquor for resale, is valued at the lower of cost, determined on a weighted average basis, and net realizable value.

(e) Property and equipment

Property and equipment is recorded at cost, which is amortized over the estimated useful lives of assets on a straight-line basis at annual rates disclosed in note 7. The Fund will test its property and equipment for impairment when events and circumstances warrant such a review. An impairment loss is recorded when it is determined that the carrying amount is no longer recoverable and exceeds its fair value.

(f) Goodwill

Goodwill represents the excess of the cost of an acquired business over the fair value of the identifiable net assets acquired. Goodwill is not amortized, but is assessed for impairment at least annually or when events and circumstances indicate the carrying value may not be recoverable. The Fund uses the two step impairment test as outlined in the Canadian Institute of Chartered Accountants ("CICA") Handbook to determine if there is impairment in the carrying value of goodwill.

(g) Intangible assets

Intangible assets, consisting of acquired customer relationships, retail liquor licenses and business permits, tradenames and property leases acquired at less than market rates, are recorded at cost.

The amount attributed to customer relationships is amortized over five years and the amount attributed to property leases is amortized over the remaining terms of the leases ranging from one to 12 years.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION (continued)

Certain retail liquor licenses and business permits to operate a retail liquor store have an indefinite life and are therefore not amortized. Other retail liquor licenses are amortized based on license expiry terms ranging from 5 to 25 years. Tradenames have an indefinite life and are not amortized.

The Fund will assess the carrying value of limited life intangible assets for impairment when events or circumstances warrant such a review. An impairment loss is recorded when it is determined that the carrying amount of the assets is no longer recoverable and exceeds their fair value. The Fund will assess the carrying value of indefinite life intangible assets for impairment annually, or more frequently, if events or changes in circumstances indicate that their carrying value may not be recoverable. The amortization method and estimated useful life of amortizing intangible assets are reviewed on an annual basis.

(h) Income taxes

Future income taxes are recognized at substantively enacted tax rates for the future income tax consequences attributable to differences between the carrying values of assets and liabilities and their respective income tax bases. The effect on future income tax assets and liabilities of a change in rates is included in earnings in the period that includes the date of substantive enactment.

(i) Unit-based compensation

The Fund's unit-based compensation plans consist of a Long Term Incentive Plan and a 2007 Incentive Plan for the benefit of certain employees and a Deferred Share Unit Plan for the benefit of Fund directors as further described in note 19. The Fund accounts for unit-based compensation using the fair value method, in which the fair value of compensation is measured at the grant date and recognized over the service period.

(j) Financial instruments

The Fund has designated its cash and cash equivalents as held for trading, which are measured at fair value. Accounts receivable are classified as loans and receivables, which is measured initially at fair value, and subsequently at amortized cost. Bank indebtedness, accounts payable and accrued liabilities, distributions payable to unitholders and non-controlling interest and long-term debt are classified as other financial liabilities which are measured initially at fair value, and subsequently at amortized cost.

Transaction costs related to the issuance of financial liabilities are capitalized on initial recognition and are recognized in income using the effective interest method.

(k) Convertible debentures

The Fund's convertible debentures have been classified as debt with a portion of the proceeds representing the value of the conversion option bifurcated to equity. The debt balance accretes over time to the amount owing on maturity. Upon conversion, portions of debt and equity are transferred into Fund Units.

(l) Translation of foreign currencies

The Fund has foreign subsidiaries in the United States that are considered to be self-sustaining. Assets and liabilities of the foreign subsidiaries are translated into Canadian dollars using the current rate method of translation. Accordingly, foreign exchange gains and losses arising from the translation of the foreign subsidiaries' accounts into Canadian dollars are reported as a component of other comprehensive income.

Transactions denominated in foreign currencies are recorded at the rate of exchange on the transaction date. Monetary assets and liabilities are translated into Canadian dollars at the rate of exchange prevailing at the balance sheet date, with any resulting gain or loss being included in earnings.

Accounting standards issued but not yet effective

Business combinations

The CICA issued Handbook Section 1582, Business Combinations, which replaces Section 1581. This new standard aligns accounting for business combinations under Canadian GAAP and International Financial Reporting Standards ("IFRS"). The standard requires assets and liabilities acquired in a business combination to be measured at fair value at the acquisition date. The standard also requires acquisition-related costs, such as advisory or legal fees, incurred to effect a business combination to be expensed in the period in which they are incurred. The adoption of this standard will impact the accounting treatment of future business combinations. The revised standard is effective for business combinations occurring on or after January 1, 2011; however, early application is permitted. The Fund will be adopting the revised standard effective January 1, 2010.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION (continued)

Consolidated Financial Statements and Non-controlling Interests

The CICA issued Handbook Sections 1601, Consolidated Financial Statements and 1602, Non-controlling Interests, which together replace the former consolidated financial statements standard. Under the revised standards, non-controlling interests will be classified as a component of equity, and earnings and comprehensive income will be attributed to both the parent and non-controlling interest. The adoption of these standards is not expected to have a material impact to the Fund's consolidated financial statements. The revised standards are effective January 1, 2011; however early application is permitted. The Fund will be adopting the revised standard effective January 1, 2010.

3. CHANGES IN ACCOUNTING POLICIES

(a) Section 3064 – Goodwill and intangible assets

Effective January 1, 2009, the Fund has adopted CICA Handbook section 3064 – Goodwill and intangible assets, which resulted in a retrospective change in the Fund's accounting policy for pre-operating costs. Concurrent with the adoption of this standard, EIC 27 – Revenues and Expenditures during the pre-operating period, has been withdrawn.

Pre-opening costs represent incremental direct costs incurred in acquiring and developing new retail liquor stores. Section 3064 – Goodwill and intangible assets states that pre-opening costs are to be expensed as incurred and no longer capitalized as an asset. Prior to the adoption of this standard, the Fund deferred expenditures incurred during the pre-operating period and amortized the costs over the 24 month period following the commencement of operations. Section 3064 requires the Fund to retrospectively restate prior periods.

The impact of retrospectively adopting Section 3064 is as follows:

(expressed in thousands of Canadian dollars)		2008 (restated)		2008 (as originally presented)
Balance sheet				
Pre-opening costs	$	–	$	1,297
Non-controlling interest		48,013		48,279
Fund Units		309,638		309,730

The impact on reported earnings is as follows:

(expressed in thousands of Canadian dollars)		2008
Decrease in pre-opening cost amortization	$	735
Pre-opening costs expensed during the period		(1,227)
Decrease in non-controlling interest		89
Decrease in net earnings	$	(403)
Decrease in basic and diluted earnings per unit	$	(0.02)

The cumulative impact of the changes to December 31, 2008 is a decrease of $852,533 to unitholders' equity.

(b) Emerging Issues Committee Abstract #171 Future Income Tax Consequences of Exchangeable Interests in an Income Trust or Specified Investment Flow-Through

On August 28, 2008, the Fund adopted CICA Emerging Issues Committee Abstract #171 ("EIC-171") Future Income Tax Consequences of Exchangeable Interests in an Income Trust or Specified Investment Flow-Through. EIC-171 states that future taxes related to temporary differences associated with the assets and liabilities attributable to the exchangeable interests should not be recorded prior to the conversion of the exchangeable interest. The future income taxes should be accounted for as a capital transaction at the time of conversion. The Fund has retrospectively applied EIC-171 with restatement of prior periods as required by the standard's transitional provisions.

The cumulative impact of the changes to December 31, 2007 is an increase of $94,834 to unitholders' equity.

4. BUSINESS ACQUISITIONS

The business acquisitions have been accounted for using the purchase method, whereby the purchase consideration was allocated to the estimated fair values of the assets acquired and liabilities assumed at the effective date of the purchase.

(a) 2009 Acquisitions

On September 24, 2009, the Fund acquired one retail liquor store in Canada and on October 22, 2009 the Fund acquired eight retail liquor stores in Kentucky. The operating results of the stores are included in the results of the Fund from each store's date of acquisition.

Adjustments to goodwill of $177,852 were made for prior year acquisitions and relate to contingent payments, transaction costs and the finalization of third party valuations. Of the goodwill acquired for retail liquor store acquisitions during the year ended December 31, 2009, $13,026,552 is expected to be deductible for tax purposes.

The purchase price allocated to the assets acquired is as follows:

(expressed in thousands of Canadian dollars)	Acquisition of liquor stores in Kentucky	Other acquisitions	Total
Net assets acquired:			
Working capital (including $44 cash)	$ 12,271	$ 215	$ 12,486
Property and equipment	1,439	177	1,616
Intangible assets	4,092	–	4,092
Goodwill	12,330	697	13,027
	30,132	1,089	31,221
Consideration:			
Cash	30,132	1,089	31,221
Cash paid consists of the following:			
Total cash consideration	30,132	1,089	31,221
Less:			
Amounts payable at December 31, 2009	(15)	–	(15)
Cash acquired	(44)	–	(44)
	$ 30,073	$ 1,089	$ 31,162

Acquired intangible assets are summarized as follows:

(expressed in thousands of Canadian dollars)	Total
Finite life intangible assets:	
Leases	$ 809
Indefinite life intangible assets:	
Retail liquor licenses	2,909
Tradename	374
	$ 4,092

4. BUSINESS ACQUISITIONS (continued)

(b) 2008 Acquisitions

On November 5, 2008, the Fund completed the acquisition of 19 retail liquor stores and one liquor license in Anchorage, Alaska. The operating results of the 19 stores are included in the results of the Fund from November 5, 2008.

In 2008, the Fund also acquired five retail liquor stores in Canada, one liquor license and made a final instalment payment of $750,000 for a 2007 liquor license purchase.

During the year ended December 31, 2008, adjustments were made to goodwill and intangible assets of $116,450 and $256,788 respectively, related to transaction costs, contingent payments and the finalization of third party valuations for prior year acquisitions. Of the goodwill acquired for retail liquor store acquisitions during the year ended December 31, 2008, $12,028,424 is expected to be deductible for tax purposes.

The purchase price was allocated to the assets acquired as follows:

(expressed in thousands of Canadian dollars)	Acquisition of liquor stores in Alaska	Other acquisitions	Total
Net assets acquired:			
Working capital	$ 14,042	$ 1,001	$ 15,043
Property and equipment	3,150	1,451	4,601
Intangible assets	9,354	3,828	13,182
Goodwill	10,968	1,060	12,028
	37,514	7,340	44,854
Consideration:			
Cash deposit paid in prior year	-	587	587
Cash consideration during year	37,514	6,753	44,267
	37,514	7,340	44,854
Cash paid consists of the following:			
Total cash consideration	37,514	6,753	44,267
Less:			
Amounts payable at December 31, 2008	(470)	(37)	(507)
	$ 37,044	$ 6,716	$ 43,760

Acquired intangible assets are summarized as follows:

(expressed in thousands of Canadian dollars)	Acquisition of liquor stores in Alaska	Other acquisitions	Total
Finite life intangible assets:			
Retail liquor license	$ -	$ 359	$ 359
Customer relationships	-	110	110
Leases	20	314	334
	20	783	803
Indefinite life intangible assets:			
Retail liquor licenses	8,657	3,045	11,702
Tradename	677	-	677
	9,334	3,045	12,379
	$ 9,354	$ 3,828	$ 13,182

4. BUSINESS ACQUISITIONS (continued)

(c) Contingent consideration

For two agreements entered into in 2005 for the purchase of certain retail liquor stores, the Fund may be required to make the following contingent payments: i) $100,000 each year for the next two years from December 31, 2009 provided that certain sales thresholds are achieved; and ii) 1% of gross sales of certain stores payable quarterly for the next year to a cumulative maximum of $450,000.

For an agreement entered into in 2007 for the purchase of a retail liquor store, the Fund may be required to make a contingent payment of $65,000, if certain sales thresholds are achieved.

Given the uncertainty with respect to the amount and timing of such payments, no amounts were recorded with respect to this contingent consideration at the time of the respective acquisitions. The Fund will recognize additional consideration payable and goodwill when the outcome of these contingencies becomes determinable.

5. DEPOSITS ON FUTURE ACQUISITIONS

Deposits represent refundable and non-refundable amounts paid for the acquisition of retail liquor stores where the purchase transaction is incomplete at the balance sheet date. Deposits for the acquisition of inventory and working capital are included in prepaid expenses and deposits.

Current year activity is as follows:

(expressed in thousands of Canadian dollars)	Non-current Deposits	Current Deposits
Balance – December 31, 2007	$ 647	$ 160
Deposits tendered	3,274	416
Acquisitions completed	(3,701)	(250)
Holdbacks released and refunds received	(210)	(103)
Balance – December 31, 2008	$ 10	$ 223
Deposits tendered	1,165	12
Acquisitions completed	(1,165)	–
Holdback released and refunds received	(10)	(1)
Balance – December 31, 2009	$ –	$ 234

6. SALE OF INVESTMENT

During the year ended December 31, 2009, the Fund sold its 80% interest in one store and received proceeds of $965,983 for the sale. In connection with this transaction, the Fund also sold its note receivable for proceeds of $234,000. The net gain on the sale was $179,493.

7. PROPERTY AND EQUIPMENT

(expressed in thousands of Canadian dollars)				2009
	Rate %	Cost	Accumulated amortization	Net book value
Leasehold improvements	8	$ 44,408	$ 13,460	$ 30,948
Operating equipment	10	5,666	1,588	4,078
Office equipment and fixtures	10	2,913	958	1,955
Computer equipment	20	8,949	3,391	5,558
Automotive	20	724	459	265
Signage	10	2,883	805	2,078
Shelving and racking	10	2,765	996	1,769
Building	4	387	25	362
		$ 68,695	$ 21,682	$ 47,013

(expressed in thousands of Canadian dollars)				2008
	Rate %	Cost	Accumulated amortization	Net book value
Leasehold improvements	7 - 8	$ 43,388	$ 10,152	$ 33,236
Operating equipment	10	4,668	1,091	3,577
Office equipment and fixtures	10	2,470	676	1,794
Computer equipment	20	5,612	2,067	3,545
Automotive	20	689	329	360
Signage	10	2,575	537	2,038
Shelving and racking	10	2,554	739	1,815
Building	4	387	9	378
		$ 62,343	$ 15,600	$ 46,743

8. INTANGIBLE ASSETS

(expressed in thousands of Canadian dollars)			2009
	Cost	Accumulated amortization	Net book value
Finite life			
Customer relationships	$ 1,505	$ 899	$ 606
Retail liquor licenses	26,698	3,342	23,356
Leases	6,716	3,781	2,935
Indefinite life			
Retail liquor licenses	19,530	-	19,530
Tradenames	1,536	-	1,536
	$ 55,985	$ 8,022	$ 47,963

8. INTANGIBLE ASSETS (continued)

(expressed in thousands of Canadian dollars)			2008
	Cost	Accumulated amortization	Net book value
Finite life			
Customer relationships	$ 1,615	$ 591	$ 1,024
Retail liquor licenses	26,920	2,064	24,856
Leases	5,899	2,571	3,328
Indefinite life			
Retail liquor licenses	17,830	–	17,830
Tradenames	1,160	–	1,160
	$ 53,424	$ 5,226	$ 48,198

9. GOODWILL

(expressed in thousands of Canadian dollars)	**2009**	2008
Balance – beginning of year	**$ 271,533**	$ 259,638
Retail Liquor Store acquisitions (note 4)	**13,027**	12,028
Sale of investment (note 6)	**(41)**	–
Goodwill adjustment due to store closures	**–**	(624)
Foreign currency translation	**(1,422)**	491
Balance – end of year	**$ 283,097**	$ 271,533

The Fund tests goodwill for impairment as of September 30 every year, and determined that goodwill was not impaired as of September 30, 2009 or 2008. Significant assumptions included in this test include management's expectations regarding future revenues, expenses, and other factors impacting cash flow, as well as various inputs to determine the Fund's weighted average cost of capital. While the assumptions reflect management's best estimates, they are subject to the measurement uncertainty associated with material estimates. As a result, material revisions could be required to these estimates in future periods.

10. BANK INDEBTEDNESS AND LONG-TERM DEBT

The Fund concluded an amended and restated credit agreement effective June 30, 2009, with significant terms as described below.

(a) Bank indebtedness

The Fund's credit facilities with a syndicate of Canadian banks is comprised of an extendible revolving $95 million operating facility ("Operating Facility") and a $48 million extendible revolving term loan facility ("Term Loan Facility"). The Fund also has a $5 million USD operating facility with a US bank ("US operating facility").

Interest on bank indebtedness related to the Operating Facility was payable at the lender's prime rate plus 1.50% or the banker's acceptance discount rate plus a stamping fee of 2.50%. Interest on amounts outstanding on the Term Loan Facility was payable at the lender's prime rate plus 1.50% or the banker's acceptance discount rate plus a stamping fee of 2.50%. Standby fees for the Operating Facility and Term Loan Facility were charged at an annual rate of 0.50% payable monthly on undrawn portions of the facilities. Interest on the US operating facility was payable at three month LIBOR + 2.00%. Financing fees relating to the Operating Facility have been capitalized and are being amortized over the term of the credit facility.

10. BANK INDEBTEDNESS AND LONG-TERM DEBT (continued)

Subsequent to December 31, 2009, amendments were made to interest rates payable on the Operating and Term Loan Facilities. Interest on the Operating Facility is now payable at the lender's prime rate plus 1.75% or the banker's acceptance discount rate plus a stamping fee of 2.75%. Interest on the Term Loan Facility is now payable at the lender's prime rate plus 1.75% or the banker's acceptance discount rate plus a stamping fee of 2.75%. Standby fees are now charged at an annual rate of 0.55% payable monthly on undrawn portions of the facilities.

The bank indebtedness and long-term debt are collateralized by a general security agreement covering all present and after-acquired property of Liquor Stores Limited Partnership and its affiliates and subsidiaries, a floating charge over all of the present and after acquired real property of Liquor Stores Limited Partnership and its direct and indirect subsidiaries and an assignment of Liquor Stores Limited Partnership's insurance. Further, Liquor Stores Limited Partnership's direct and indirect subsidiaries have provided the syndicate with unlimited guarantees of the credit facilities. The assets of Liquor Stores Limited Partnership and its subsidiaries represent substantially all of the Fund's assets.

As at December 31, 2009, $27 million was advanced under the Operating Facility as banker's acceptances and $11.5 million US as a LIBOR advance. Under the Term Loan Facility, $33 million was advanced as banker's acceptances and $13.5 million US as a LIBOR advance. On January 11, 2010, the LIBOR advances were rolled over into an $8 million US LIBOR advance and a $3.5 million US base rate loan under the Operating Facility and a new $13.5 million US LIBOR advance under the Term Loan Facility. No principal amounts are due on the Term Loan Facility until maturity at June 30, 2011. As at December 31, 2009, there were no amounts outstanding on the US operating facility.

At December 31, 2009, the Fund had issued $3.7 million (2008 – $3.7 million) in letters of guarantee for day-to-day inventory purchases in Canada. Subsequent to December 31, 2009, the letters of guarantee were reduced to $2.2 million.

The Fund's credit facility agreements contain both objectively determinable and subjective covenants which, if the Fund fails to comply, could accelerate repayment requirements.

(b) Long-term debt

Long-term debt comprises the following:

(expressed in thousands of Canadian dollars)	Maturity Date	2009 Effective Rate	December 31, 2009	December 31, 2008
Term Loan Facility advance	June 30, 2011	4.03%	$ 47,188	$ 28,000
Unamortized financing charges(i)			(135)	–
			47,053	28,000
Convertible unsecured subordinated debentures:				
6.75% Debenture(ii)	December 31, 2012	10.13%	52,543	51,198
8.00% Debenture(iii)	December 31, 2011	4.85%	530	544
			100,126	79,742
Less: current portion of long-term debt			–	28,000
			$ 100,126	$ 51,742

(i) Financing fees related to the Term Loan Facility have been capitalized and are being amortized over the term of the facility.

(ii) 6.75% unsecured subordinated convertible debentures ("6.75% Debentures")

The 6.75% Debentures have a principal amount of $57.5 million and are convertible at the holder's option into fully paid and non-assessable Units at any time prior to the close of business on the earlier of December 31, 2012 and the business day immediately prior to a date specified by the Fund for redemption of the 6.75% Debentures at a conversion price of $28.50.

10. BANK INDEBTEDNESS AND LONG-TERM DEBT (continued)

The 6.75% Debentures are not redeemable by the Fund prior to January 1, 2011. On or after January 1, 2011 and prior to January 1, 2012, the 6.75% Debentures are redeemable in whole or part from time to time at the option of the Fund on not more than 60 days and less than 30 days notice at the principal amount thereof plus accrued and unpaid interest provided the current market price, as defined in the Indenture, of the Units on the date of the notice of redemption is not less than 125% of the conversion price of $28.50. On or after January 1, 2012, the 6.75% Debentures are redeemable in whole or part from time to time at the option of the Fund on not more than 60 days and less than 30 days notice at the principal amount thereof plus accrued and unpaid interest.

The value of the conversion feature was determined to be $4,830,000 and has been recorded as equity with the remaining $52,670,000 allocated to long-term debt, net of $2,663,951 in transaction costs. The debentures are being accreted such that the liability at maturity will be equal to the face value of $57,500,000. As at December 31, 2009, there were no conversions of these debentures.

(iii) 8.00% unsecured subordinated convertible debentures ("8.00% Debentures")

The 8.00% Debentures have a principal amount of $500,000. The 8.00% Debentures are convertible at the holder's option into fully paid and non-assessable Units at any time prior to the close of business on December 31, 2011 and the business day immediately prior to a date specified by the Fund for redemption of the 8.00% Debentures at a conversion price of $15.09.

The 8.00% Debentures are not redeemable by the Fund prior to December 31, 2009. On or after December 31, 2009 and prior to December 31, 2010, the 8.00% Debentures are redeemable in whole or part from time to time at the option of the Fund on not more than 60 days and less than 30 days notice at the principal amount thereof plus accrued and unpaid interest provided the weighted average trading price of the Units on the Toronto Stock Exchange during the 20 consecutive trading days ending on the fifth trading day preceding the date on which notice of redemption is not less than $18.86. On or after December 31, 2010 and prior to December 31, 2011, the 8.00% Debentures are redeemable in whole or part from time to time at the option of the Fund on not more than 60 days and less than 30 days notice at the principal amount thereof plus accrued and unpaid interest.

The fair value of the debenture was determined to be $703,000 as part of the acquisition of Liquor Barn. The value of the conversion feature was determined to be $140,000 and has been recorded as equity with the remaining $563,000 allocated to long term debt. The debentures are amortized such that the liability at maturity will be equal to the face value of $500,000. As at December 31, 2009, there were no conversions of these debentures.

Upon the occurrence of a change of control involving the acquisition of voting control or direction over 66-⅔% or more of the Units of the Fund, the Fund will be required to make an offer to purchase, within 30 days following the consummation of the change of control, all of the 6.75% Debentures and 8.00% Debentures at a price equal to 101% of the principal amount thereof plus accrued and unpaid interest. This is not effective if the transaction is undertaken as a consequence of the SIFT legislation in which a new parent entity is established, created, or adapted for, or in replacement of, the Fund and there is no change in ultimate ownership of the business of the Fund.

During the year ended December 31, 2009, interest on convertible debentures of $5,251,621 (2008 – $5,088,350) represents coupon interest of $3,921,250 and $1,330,371 pertaining to the impact of capitalized transaction costs and the accretion of the debt using the effective interest method.

11. DISTRIBUTIONS

Distributions are determined in accordance with the Trust Indenture, and are based on earnings, before amortization and adjusted by capital expenditures. Distributions totalling $1.62 (2008 – $1.62) per Unit for each of Fund Units, Liquor Stores Exchangeable LP Units and Series 1 Exchangeable LP Units were declared by the Fund for the year ended December 31, 2009.

(expressed in thousands of Canadian dollars)								2009
	Fund Units		Liquor Stores Exchangeable LP Units		Liquor Stores Series 1 Exchangeable LP Units		Total	
	Declared	Paid	Declared	Paid	Declared	Paid	Declared	Paid
Distributions	$ 29,887	$ 27,394	$ 5,213	$ 4,781	$ 1,370	$ 1,255	$ 36,470	$ 33,430

(expressed in thousands of Canadian dollars)								2008
	Fund Units		Liquor Stores Exchangeable LP Units		Liquor Stores Series 1 Exchangeable LP Units		Total	
	Declared	Paid	Declared	Paid	Declared	Paid	Declared	Paid
Distributions	$ 29,717	$ 27,239	$ 5,324	$ 4,882	$ 1,373	$ 1,258	$ 36,414	$ 33,379

12. FUTURE INCOME TAXES

Prior to June 12, 2007, the Fund provided for current and future income taxes only for its incorporated subsidiaries. On June 22, 2007, Bill C-52, including provisions related to the taxation of income trusts commencing January 1, 2011 (or sooner in certain circumstances), received Royal Assent. As a consequence, Canadian income trusts are required to provide for future income taxes arising from those temporary tax differences expected to reverse after January 1, 2011. The substantively enacted tax rates for 2011 and 2012 are 26.5% and 25.0% respectively.

Determining future income taxes involves a number of assumptions and variables that could reasonably change in the period to January 1, 2011, including: the useful lives of recorded property and equipment and intangible assets that determine the amount of amortization recorded thereon; the amount of discretionary tax deductions the Fund will claim from its existing tax depreciation pools, the rates of tax applicable to various jurisdictions in which the Fund is taxable and the allocation of taxable income to those jurisdictions; and the acceptance of the Fund's tax filing positions by the taxation authorities. Changes in these assumptions and variables, which are re-evaluated at each balance sheet date, could result in changes in the recorded amount of future income taxes, and these changes could be material.

12. FUTURE INCOME TAXES (continued)

Future income tax assets and liabilities are recognized based on temporary differences between accounting and tax bases of existing assets and liabilities as follows:

(expressed in thousands of Canadian dollars)	**December 31, 2009**	December 31, 2008
Future income tax liabilities:		
Intangible assets	**$ 5,806**	$ 6,312
Property and equipment	**2,081**	2,566
Goodwill	**3,263**	2,627
	11,150	11,505
Future income tax assets:		
Issue and financing costs	**696**	549
Deferred lease inducements	**237**	198
Long term incentive plans	**67**	79
Non-capital losses	**896**	63
	1,896	889
	$ 9,254	$ 10,616

The above includes a net future income tax asset recorded by wholly-owned US subsidiaries of $184,979 (2008 – $84,528).

Future income taxes of $2,020,360 attributable to the Fund's exchangeable interests are not recorded. During the year ended December 31, 2009, 79,072 (2008 – 46,721) units were exchanged resulting in an increase to future income taxes of $42,799 (2008 – $29,509).

The Fund has recognized future income taxes related to non-capital losses of $2,748,407 (2008 – $690,663) available in subsidiaries to offset income of future years. Realization of the non-capital losses is considered to be more likely than not. If not utilized, $494,694 will expire in 2028 and $2,253,713 will expire in 2029.

Future income taxes are not recorded on $103,745,778 of non tax-deductible goodwill.

13. NON-CONTROLLING INTEREST

	Liquor Stores Exchangeable LP Units	Liquor Barn Exchangeable LP Units	Series 1 Exchangeable LP Units	Total
Balance – December 31, 2007	# 3,300,255	# 867,789	# –	# 4,168,044
Issuance of Series 1 Exchangeable LP Units	–	(867,789)	867,789	–
Exchanged for Fund Units	(24,341)	–	(22,380)	(46,721)
Balance – December 31, 2008	# 3,275,914	# –	# 845,409	# 4,121,323
Exchanged for Fund Units	(79,072)	–	–	(79,072)
Balance – December 31, 2009	# 3,196,842	# –	# 845,409	# 4,042,251

(expressed in thousands of Canadian dollars)	(restated – note 3)
Balance – December 31, 2007	$ 50,226
Earnings	4,723
Exchanged for Fund Units	(707)
Series 1 Exchangeable LP Unit conversion	210
Distributions declared (note 11)	(6,697)
Balance – December 31, 2008	$ 47,755
Earnings	4,895
Exchanged for Fund Units	(722)
Exchangeable LP Unit conversion	(43)
Distributions declared (note 11)	(6,583)
Balance – December 31, 2009	$ 45,302
Subsidiaries	
Balance – December 31, 2007	235
Earnings	415
Dividends	(392)
Balance – December 31, 2008	$ 258
Earnings	424
Sale of investment	17
Dividends	(425)
Balance – December 31, 2009	$ 274
Total	$ 45,576

Liquor Stores LP Exchangeable LP Units ("Exchangeable LP Units") and Liquor Stores LP Series 1 Exchangeable LP Units ("Series 1 Exchangeable LP Units")

The Exchangeable LP Units and Series 1 Exchangeable LP Units issued by Liquor Stores LP have economic and voting rights equivalent to the Fund Units (note 16), except in connection with the exchangeability terms as described below. They are exchangeable, directly or indirectly, on a one-for-one basis for Fund Units at the option of the holder, under the terms of the Exchange Agreement. The Exchangeable LP Units are not required to be exchanged for Fund Units before transferring to third parties. Exchangeable LP Units and Series 1 Exchangeable Units have been treated as non-controlling interest.

Each Exchangeable LP Unit and Series 1 Exchangeable LP Unit entitles the holder to receive distributions pro- rata with distributions made on Fund Units.

14. CONTINGENCIES

The Fund may, from time to time, be subject to claims and legal proceedings brought against it in the normal course of business. Such matters are subject to many uncertainties. Management believes that adequate provisions have been made in the accounts where required and the ultimate resolution of such contingencies will not have a material adverse effect on the consolidated financial position of the Fund.

15. COMMITMENTS

The Fund occupies its head office and retail locations under lease agreements with terms varying from five to twenty-five years and expiring from 2010 to 2028. The leases provide for minimum annual lease payments as follows:

(expressed in thousands of Canadian dollars)	Amount
2010	$ 19,076
2011	16,634
2012	14,620
2013	12,300
2014	9,285
Aggregate of all years thereafter	21,180
	$ 93,095

16. UNITHOLDERS' EQUITY

Units outstanding and capital contributions are as follows:

(expressed in thousands of Canadian dollars)	Number of units
Balance – December 31, 2007	# 18,294,278
Issued for Exchangeable Units	46,721
Vested Units	15,997
Treasury Units issued on March 7, 2008	49,143
Vested Units	(695)
Treasury Units	(48,448)
Balance – December 31, 2008	# 18,356,996
Issued for Exchangeable Units	79,072
Vested Units (note 19 (a))	31,256
Forfeited units	3,124
Balance – December 31, 2009	# 18,470,448

An unlimited number of Fund Units may be created and issued pursuant to the Declaration of Trust. Each Fund Unit is transferable and represents an equal undivided beneficial interest in any distributions from the Fund, whether of net income, net realized capital gains or other amounts and in the net assets of the Fund in the event of a termination or winding up of the Fund. All Fund Units entitle the holder thereofto one vote and each Fund Unit has equal voting rights and privileges.

Consideration for units issued on exchange of Liquor Stores Exchangeable LP Units and Series 1 Exchangeable LP Units during the year ended December 31, 2009 was recorded at the carrying amount of the Liquor Stores Exchangeable LP Units and Series 1 Exchangeable LP Units.

The monthly cash distributions received by the Long-Term Incentive Plan and the 2007 Incentive Plan are remitted to the participants when the associated Units vest.

17. CAPITAL MANAGEMENT

The Fund views capital as the combination of its Term Loan Facility, convertible debentures and Unitholders' equity balances. In general, the overall capital of the Fund is evaluated and determined in the context of its financial objectives when managing capital, which are to ensure the Fund has capital and capacity to support its growth strategy, provide investors with stable returns and ensure the Fund has the financial capacity to support its operations.

The Fund's capital structure reflects the requirements of a company focused on growth, both through the development of new stores and through acquisitions. Management continually monitors the adequacy of the Fund's capital structure and adjusts the structure accordingly, either by accessing credit facilities, issuing debt instruments, or issuing new units.

There were no changes to the Fund's objectives, policies or processes for managing capital from the prior fiscal year.

The Fund's credit facilities with a syndicate of Canadian banks are subject to a number of financial covenants. Management prepares financial forecasts to monitor its compliance with the financial covenants and to anticipate whether there are any forseen issues. Under the terms of the Fund's credit facility, the following ratios are monitored: current ratio, funded debt to EBITDA, adjusted debt to EBITDAR, and fixed charge coverage ratio. For the year ended December 31, 2009, the Fund is in compliance with all covenants.

With respect to equity, the current level of capital is considered adequate and in line with the operations and the strategic growth plan of the Fund. The equity component of capital changes primarily based upon the income of the Fund less distributions paid.

The Fund will monitor and assess capital changes as they may be required in relation to the taxation changes expected to impact the Fund in 2011, as described in note 12.

18. EARNINGS PER UNIT

(expressed in thousands of Canadian dollars, except per unit amounts)		**2009**		2008 (restated – note 3)
Net earnings (numerator utilized in basic Earnings per Unit)	$	**23,729**	$	18,856
Non-controlling interest		**4,895**		–
Earnings (numerator utilized in diluted Earnings per Unit)	$	**28,624**	$	18,856
Units outstanding, beginning of period	#	**18,356,996**	#	18,294,278
Weighted average of Units issued less treasury Units acquired		**88,634**		48,918
Denominator utilized in basic earnings per unit	#	**18,445,630**	#	18,343,196
Exchangeable units		**4,066,237**		–
Potential units under unit-based compensation plans (note 19 (a))		**20,267**		14,414
Denominator utilized in diluted earnings per unit	#	**22,532,134**	#	18,357,610
Earnings per Unit – Basic	$	**1.29**	$	1.03
Earnings per Unit – Diluted	$	**1.27**	$	1.03

Due to their anti-dilutive effect, potential units for convertible debentures have been excluded from the diluted earnings per unit calculation. The exchangeable units were also excluded in the diluted earnings per unit calculation for the year ended December 31, 2008 as the non-controlling interest charge resulted in an anti-dilutive effect.

19. UNIT-BASED COMPENSATION PLANS

(a) Long-term incentive plan ("LTIP") and 2007 Incentive Plan ("2007 Plan")

The following table summarizes the status of the Plans:

		LTIP		2007 Plan		Total
Unvested Units - December 31, 2007	#	2,692	#	42,812	#	45,504
Granted		49,143		-		49,143
Vested Units transferred to participants		(1,726)		(14,271)		(15,997)
Unvested Units - December 31, 2008	#	50,109	#	28,541	#	78,650
Vested Units transferred to participants		(16,985)		(14,271)		(31,256)
Forfeited units		(2,086)		(1,038)		(3,124)
Unvested Units - December 31, 2009	#	31,038	#	13,232	#	44,270

In January 2009, 2,086 forfeited LTIP Units and 1,038 forfeited 2007 Plan Units were sold on the market resulting in a reduction to compensation expense of $30,714. For the remaining units granted, the compensation expense will be recognized over the vesting period of three years.

Compensation expense for the LTIP was $284,936 (2008 - $654,641) and for the 2007 Incentive Plan was $89,746 (2008 - $284,713) for the year ended December 31, 2009.

(b) Trustee and director deferred unit plan ("DSU Plan")

Awards accruing to DSU Plan participants for the year ended December 31, 2009 totalled $348,939 (2008 - reduced compensation expense by $45,586), which was recorded as compensation expense. As at December 31, 2009 participants have accumulated an entitlement to the equivalent cash value of 39,180 Units under the DSU Plan (December 31, 2008 - 26,938).

20. RELATED PARTY TRANSACTIONS

The Fund paid fees and incurred expenses to a law firm for legal services of $230,831 (2008 - $281,860) where a director of a subsidiary company of the Fund is a partner. Rent paid to companies controlled by the Executive Chairman of the Fund amounted to $587,595 (2008 - $493,862). The Fund also paid fees and expenses to a company controlled by the Executive Chairman of the Fund for consulting services of $15,427 (2008 - $53,529). These operating and administrative expenses are incurred in the normal course of business at terms similar with unrelated parties and are measured at the exchange amount. There was $17,294 included in accounts payable and accrued liabilities (December 31, 2008 - $15,000) relating to these transactions.

21. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Changes in non-cash working capital items:

(expressed in thousands of Canadian dollars)		2009		2008
Accounts receivable	$	**22**	$	1,546
Inventory		**1,370**		(14,244)
Prepaid expenses and deposits		**(93)**		(473)
Accounts payable and accrued liabilities		**4,550**		10,151
	$	**5,849**	$	(3,020)

(expressed in thousands of Canadian dollars)		2009		2008
Interest paid	$	**6,323**	$	5,779
Income taxes paid		**46**		238

22 FINANCIAL INSTRUMENTS

Recognition and measurement

The Fund's financial instruments consist of cash and cash equivalents, accounts receivable, bank indebtedness, accounts payable and accrued liabilities, distributions payable to Unitholders and non-controlling interest and long-term debt.

The following table shows the carrying amounts and fair values of the Fund's financial instruments at December 31:

(expressed in thousands of Canadian dollars)	December 31, 2009 Carrying Value	December 31, 2009 Estimated Fair Value	December 31, 2008 Carrying Value	December 31, 2008 Estimated Fair Value
Held for trading (i)				
Cash and cash equivalents	$ 5,288	$ 5,288	$ 3,350	$ 3,350
Loans and receivables (ii)				
Accounts receivable	1,846	1,846	1,928	1,928
Note receivable	-	-	310	310
Other financial liabilities (iii)				
Bank indebtedness	41,094	41,094	31,172	31,172
Accounts payable and accrued liabilities	24,554	24,554	21,033	21,033
Distributions payable to unitholders	2,493	2,493	2,478	2,478
Distributions payable to non-controlling interest	547	547	557	557
Term Loan Facility advance	47,053	47,053	28,000	28,000
Convertible debentures	53,073	60,444	51,742	56,350

(i) Held for trading

For cash and cash equivalents, the fair value represents cost plus accrued interest. Due to the short-term nature of the instruments, the carrying value approximates fair value.

(ii) Loans and receivables

The carrying value less impairment provision of trade receivables approximates fair value due to the short-term nature of the instruments.

(iii) Other financial liabilities

The carrying value of trade payables is assumed to approximate fair value due to the short-term nature of the instruments. The carrying value of bank indebtedness and long-term debt, excluding convertible debentures, approximates the fair value as the interest rate affecting these instruments is at a variable market rate. Convertible debentures have been recorded at amortized cost using the effective interest method. The fair value of the debentures was determined based on market trading values at December 31.

Credit risk

Credit risk is the risk that a third party to a financial instrument might fail to meet its obligations under the terms of the financial instrument. The Fund's financial assets that are exposed to credit risk consist primarily of cash and cash equivalents and accounts receivable. The Fund maintains its cash and cash equivalents with large financial institutions in Canada and the US. The Fund, in its normal course of operations, is exposed to credit risk from its wholesale customers. Risk associated with respect to accounts receivable is mitigated by credit management policies. The Fund is not subject to significant concentration of credit risk with respect to its customers; however, all trade receivables are due from organizations in the Alberta and British Columbia hospitality industries. There was $107,800 (2008 – $57,003) recorded for bad debts or significant past due accounts for the year ended December 31, 2009.

22. FINANCIAL INSTRUMENTS (continued)

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as market prices change.

(i) Interest rate risk

The Fund is subject to cash flow interest rate risk as its credit facilities bear interest at variable rates.

The following table presents a sensitivity analysis to changes in market interest rates and their potential annual impact on the Fund, assuming an outstanding bank indebtedness and long-term debt balance of $87.3 million.

(expressed in thousands of Canadian dollars)		+ 1.00%		- 1.00%
Increase (decrease) in interest expense	$	873	$	(873)
Increase (decrease) in earnings before income tax and non-controlling interest	$	(873)	$	873

The Fund manages its interest rate risk through credit facility negotiations and by identifying upcoming credit requirements based on strategic plans.

(ii) Foreign exchange risk

The Fund commenced operations in the United States in 2008 giving rise to foreign exchange risk arising from exposure to the US dollar. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities, and the Fund's net investment in foreign operations. The Fund does not actively manage this exposure. At December 31, 2009, a weakening/strengthening of the Canadian dollar by 10% against the US dollar with all other variables held constant, would result in an increase/decrease of the Fund's net assets of $202,568, as a result of translating the US operations.

The Fund also has exposure to foreign exchange risk through its US denominated loans under the Operating and Term Loan Facilities. A 10 % weakening/strengthening of the Canadian dollar against the US dollar with all other variables held constant would result in a foreign exchange gain or loss of $2,500,000.

Liquidity risk

The Fund's liabilities have maturities which are summarized below:

(expressed in thousands of Canadian dollars)		Current		Non-current
Bank indebtedness	$	41,094	$	-
Accounts payable and accrued liabilities		24,554		-
Distributions payable to unitholders		2,493		-
Distributions payable to non-controlling interest		547		-
Long-term debt		-		47,053
6.75% debenture		-		52,543
8.00% debenture		-		530

The Fund has long-term indebtedness with a maturity date of June 30, 2011, 8.00% convertible debentures maturing on December 31, 2011 and 6.75% convertible debentures maturing on December 31, 2012.

Liquidity risk is when the Fund may be unable to extend the maturity date of the credit facilities or to refinance outstanding indebtedness. As well, the degree to which the Fund is leveraged may reduce its ability to obtain additional financing for working capital and to finance growth acquisitions.

To manage liquidity risk, the Fund has historically renewed credit terms prior to maturity dates and maintains financial ratios that are conservative compared to financial covenants applicable to the credit facilities. In addition, a portion of the Fund's short and long-term credit facilities remain undrawn.

Management monitors liquidity risk through comparisons of current financial ratios with financial covenants contained in its credit facility agreements.

23. SEGMENTED INFORMATION

The Fund's reportable segments are Canadian Operations and US Operations. Segmentation is based on differences in the regulatory environments of Canada and the US and reflects the basis on which management measures performance and makes decisions regarding the allocation of resources. Both segments operate retail liquor stores in their respective jurisdictions. The following segmented information is regularly reported to the Fund's President and Chief Executive Officer (the Fund's chief operating decision maker).

(expressed in thousands of Canadian dollars)				2009
	Canadian	US	Intersegment Eliminations	Consolidated
Sales to external customers	$ 444,870	$ 96,179	$ –	$ 541,049
Intersegment revenue(i)	3,036	–	(3,036)	–
	$ 448,006	$ 96,179	$ (3,036)	$ 541,049
Operating margin before amortization, interest and other	$ 43,465	$ 1,781	$ –	$ 45,246
Property & equipment amortization	$ 5,775	$ 496	$ –	$ 6,271
Intangible asset amortization	2,846	45	–	2,891
Interest income (i)	(1,695)	–	1,695	–
Interest expense	7,782	1,786	(1,695)	7,873
Loss on foreign exchange	746	–	–	746
Gain on sale of investment	(179)	–	–	(179)
Earnings (loss) before income tax and non-controlling interest	$ 28,190	$ (546)	$ –	$ 27,644
Future income tax recovery	$ (1,265)	$ (139)	$ –	$ (1,404)
Non-controlling interest	5,319	–	–	5,319
Net earnings (loss)	$ 24,136	$ (407)	$ –	$ 23,729
Other information				
Expenditures for additions to:				
Property and equipment	$ 4,462	$ 2,583	$ –	$ 7,045
Goodwill	697	12,330	–	13,027
Total assets	$ 443,274	$ 66,535	$ –	$ 509,809

(i) Intersegment revenue consists of management fees charged by Canadian Operations to US subsidiaries for the provision of management services. Intercompany interest charged by Canadian Operations to US subsidiaries is related to financing arrangements. These charges are in the normal course of business and are recorded at the exchange amounts established by transfer pricing agreements, which reflect market rates.

23. SEGMENTED INFORMATION (continued)

(expressed in thousands of Canadian dollars)	Canadian	US	Intersegment Eliminations	Consolidated
				2008
Sales to external customers	$ 468,578	$ 14,337	$ –	$ 482,915
Intersegment revenue (i)	279	–	(279)	–
	$ 468,857	$ 14,337	$ (279)	$ 482,915
Operating margin before amortization, interest and other	$ 39,929	$ 3	$ –	$ 39,932
Property & equipment amortization	$ 6,212	$ 57	$ –	$ 6,269
Intangible assets amortization	3,216	3	–	3,219
Interest income (i)	(280)	–	280	–
Interest expense	6,829	329	(280)	6,878
Gain on foreign exchange	(3,247)	–	–	(3,247)
Goodwill adjustment for store closures	624	–	–	624
Earnings (loss) before income tax and non-controlling interest	$ 26,575	$ (386)	$ –	$ 26,189
Future income tax expense (recovery)	$ 2,280	$ (86)	$ –	$ 2,194
Non-controlling interest	5,139	–	–	5,139
Net earnings (loss)	$ 19,156	$ (300)	$ –	$ 18,856
Other information				
Expenditures for additions to:				
Property and equipment	$ 7,213	$ 3,708	$ –	$ 10,921
Goodwill	1,060	10,968	–	12,028
Total assets	$ 446,408	$ 41,848	$ –	$ 488,256

(i) Intersegment revenue consists of management fees charged by Canadian Operations to US subsidiaries for the provision of management services. Intercompany interest charged by Canadian Operations to US subsidiaries is related to financing arrangements. These charges are in the normal course of business and are recorded at the exchange amounts established by transfer pricing agreements, which reflect market rates.

24. ECONOMIC DEPENDENCE

Under Alberta provincial legislation the Fund is required to purchase liquor and related products sold in Alberta from the Alberta Gaming and Liquor Commission. As the Fund's income in Alberta is derived entirely from the sale of liquor and related products, its ability to continue viable operations is largely dependent upon maintaining its relationship with this main supplier.

The Fund is dependent on Connect Logistics Services Inc. and Brewers Distributor Ltd. in Alberta and the Liquor Distribution Branch in British Columbia for the majority of its products. Any significant disruption in the operations of these organizations resulting in interruption in supply would have a material adverse effect on liquor store operations including the operations of the Fund.

Corporate Information

ANNUAL GENERAL MEETING

Thursday, May 6, 2010
1:00 p.m. at Union Bank Inn
10053 Jasper Avenue
Edmonton, Alberta

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Chartered Accountants

BANKERS

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Royal Bank of Canada
Canadian Imperial Bank of Commerce

LEGAL COUNSEL

Burnet, Duckworth & Palmer LLP

TRANSFER AGENT AND REGISTRAR

CIBC Mellon Trust Company

STOCK EXCHANGE - THE TORONTO STOCK EXCHANGE

Trading symbols - LIQ.UN
- LIQ.DB

BOARD OF DIRECTORS - LIQUOR STORES GP INC.

Henry Bereznicki - Board Chairman
Irv Kipnes - Executive Chairman
Robert Green
David Margolus, Q.C.
Jim Dinning
R. John Butler, Q.C.
Glen Heximer, CA
Gary Collins
Richard Crook

OFFICERS

Irv Kipnes - Executive Chairman
Henry Bereznicki - Board Chairman and Director of Store Acquisitions and Development
Richard Crook - President and Chief Executive Officer
Patrick de Grace - Vice President Finance and Chief Financial Officer
Scott Morrow - Chief Operating Officer
Craig Corbett - Vice President Legal, General Counsel and Corporate Secretary

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